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Politics this week

Jul 22nd 2004
From The Economist print edition

Transit point

An inquiry into the attacks on New York and Washington, DC, on September 11th 2001, revealed that many of the hijackers had gone through **Iran** on their way to the United States, perhaps with the acquiescence of its authorities. The report cited ten “operational opportunities” when the al-Qaeda hijackers could have been stopped, and it called for a new intelligence tsar in America.

See article

Sandy Berger, a national security adviser to President Bill Clinton, stepped down as an informal adviser to John Kerry's campaign after the Justice Department launched a probe into his use of sensitive documents in preparation for evidence to the September 11th commission.

After **Palestinians** hostile to the leadership of Yasser Arafat attacked police stations in Gaza and abducted (and later freed) two of his police commanders, Mr Arafat was urged to accept his prime minister's resignation and to reform the Palestinian Authority, the beleaguered government in the territories occupied by Israel since 1967.

See article

The UN's General Assembly passed a resolution (by 150 to six, with ten abstentions) saying that **Israel** should take down the security barrier it is building in the occupied West Bank, but Israel said it had no intention of doing so.

AP

Iraq's new prime minister, Iyad Allawi, made a deal with a turbulent Shia clergyman, **Muqtada al-Sadr**, which, among other things, allows him to publish his party's previously banned newspaper and keep his militias on the streets, and seemed to signal that a murder charge against him would be dropped. Meanwhile, a lorry blew up outside a Baghdad police station, killing at least ten people.

See article

After talks between rebels in the eastern province of Darfur and the government of **Sudan** broke down, the American secretary of state, Colin Powell, said he was “completely dissatisfied” with the Sudanese government's failure to stop Arab militias from driving black villagers in Darfur from their homes.

The European Union said it would suspend aid, including budget support, to **Kenya**, until satisfied that its government would not squander it.

Saudi Arabia's authorities said their security forces in Riyadh, the capital, had killed two gunmen suspected of links with al-Qaeda, and had arrested the wife and children of Saleh al-Awfi, who is thought to be al-Qaeda's new leader in the kingdom.

Cutting with confidence

Silvio Berlusconi, the **Italian** prime minister, scheduled a confidence vote to ram through a package of spending cuts designed to reduce the 2004 budget shortfall. The Northern League, a restive member of

the ruling coalition, said this was the last time it would co-operate with such a manoeuvre.

Portugal's José Manuel Barroso, speaking on the eve of his election as president of the European Commission, pledged to rekindle public enthusiasm for the **EU**—while making clear he did not favour the Franco-German idea of a super-commissioner in charge of economic reform.

Serbia and Montenegro should shelve its lawsuit against NATO's member states over their 1999 bombing campaign, foreign minister Vuk Draskovic said—adding that closer ties with western institutions, including NATO, were now a major national interest.

Turkey's prime minister, Recep Tayyip Erdogan, visited France, to urge its leaders to overcome their reluctance to approve Turkey's entry negotiations with the EU.

On friendly terms

The foreign ministers of **India** and **Pakistan** met in Islamabad, a further sign of the warming ties between the nuclear-armed neighbours.

The Philippines withdrew the last of its soldiers from Iraq, bowing to the demands of kidnappers who had threatened to behead a Philippine lorry driver. The driver has now been released, but the Iraqi insurgents promptly claimed to have kidnapped six more foreign drivers, and threatened to behead one every 72 hours.

Reuters

Goh Chok Tong will stand down as prime minister of **Singapore** on August 12th, after 14 years. His place will be taken by Lee Hsien Loong, son of Singapore's founding father, Lee Kuan Yew.

See article

Too young to die

The American **Supreme Court** was urged to declare the death penalty unconstitutional for people convicted of crimes they committed before turning 18. Religious groups and 18 winners of the Nobel peace prize, including Jimmy Carter and Mikhail Gorbachev, filed briefs arguing that the executions were a “violation of international norms”.

A report released by the National Conference of State Legislatures indicated that **state governments** have made a huge effort in cutting their deficits, closing budget gaps by some $235 billion in the past four years. However, several large states, including California, have yet to pass their budgets for the fiscal year 2005.

Campaign-finance reports showed that **George Bush** had raised a total of $230m for his re-election fund by the end of June—and still had $64m left to spend. The official figures for John Kerry were $185m and $36m respectively. Both will be limited to spending the $75m in public funds they receive after their party conventions.

See article

High gas pressure

A referendum in **Bolivia** endorsed an increased role for the state in the natural gas sector. This is likely to result in renegotiations of gas contracts but it falls short of the wholesale renationalisation some Bolivians had wanted.

See article

Foreign donors at a meeting in Washington, DC, promised to give more than $1 billion over the next two

years to help with **Haiti's** recovery. Years of mismanagement and instability led to the departure of the former president, Jean-Bertrand Aristide, in February.

Canada's prime minister, Paul Martin, announced the composition of his new cabinet. His Liberal Party lost its overall majority in parliament after elections in June.

Reuters

See article

A court in **Chile** launched an investigation into allegations of corruption and embezzlement against its former dictator, Augusto Pinochet. His immunity from prosecution was recently overturned.

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Business this week

Jul 22nd 2004
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Recycle bin

Microsoft resolved to return some of its huge cash pile of about $60 billion to shareholders. They will get a special dividend of a whopping $32 billion, and the software giant plans share buy-backs of $30 billion over the next four years as well as a doubling of regular dividends.

See article

Martha Stewart received the minimum sentence of five months in prison and the same period of home detention, and was fined $30,000, for obstructing justice in relation to investigations of her share dealings. The lifestyle guru, still free pending an appeal, urged consumers to carry on buying her goods and promised a book about her ordeal.

A German court acquitted six former bosses of **Mannesmann**—including Josef Ackermann, currently head of Deutsche Bank—of charges relating to their approval of bonuses paid to the engineering firm's chief executive, Klaus Esser, and other executives after the sale of Mannesmann to Vodafone in 2000.

See article

Russia's government announced plans to sell Yuganskneftegaz, the biggest of the three main oil-producing subsidiaries of **Yukos**, to cover the firm's tax bill, confirming fears that Yukos will be broken up. Yukos claimed that a buyer was set to pay a bargain price of $1.8 billion and threatened to declare bankruptcy if the sale goes ahead. Its shares continued to tumble.

The European Commission ordered **France Telecom** to repay up to *euro*1.1 billion ($1.4 billion) in illegal state aid in the form of tax payments forgone between 1994 and 2002. But it decided that the *euro*9 billion offered to France Telecom during a financial crisis in 2002 but not taken up, while constituting state aid because it encouraged private investment in the telecom giant, would attract no penalty.

Dodgy drug deal

Schering-Plough was reportedly ready to pay $350m to settle charges with America's government that it cheated the Medicaid programme by overcharging for drugs. Bayer and GlaxoSmithKline paid millions of dollars last year to settle similar charges.

Bayer agreed to pay *euro*2.4 billion ($2.9 billion) for the non-prescription medicines business of Roche, a Swiss rival. The high-priced acquisition failed to impress investors in the beleaguered German drug firm; its shares dipped.

Delta wings clipped

Delta Air Lines suffered a mammoth loss of nearly $2 billion in the latest quarter after charges of over $1.6 billion. The struggling American carrier suffered a downgrade of its credit rating. Its pilots immediately offered wage cuts to restore Delta's battered finances, though less than the airline wants.

Ford made profits of $1.2 billion in the latest quarter, some three times more than a year ago. The bulk of the improvement is attributable to gains at its finance arm, which offset weakening car sales. **General Motors** reported a 49% rise in quarterly profits over a year ago, to $1.3 billion for much the same

reason

Making money on the markets

Richard Grasso, former boss of the New York Stock Exchange, filed a lawsuit against his erstwhile employer and its new chairman, John Reed, claiming over $50m for breach of contract, including an undertaking not to disparage him. The action comes after last year's suit against Mr Grasso demanding the return of some of his controversial $188m pay package from the exchange.

Deutsche Börse approached **SWX Group**, the operator of the Swiss stock exchange, about increasing co-operation, suggesting to some that a merger is imminent. A link-up would give the German company control of Eurex, a derivatives exchange jointly owned by the two firms, and would further Deutsche Börse's international ambitions.

See article

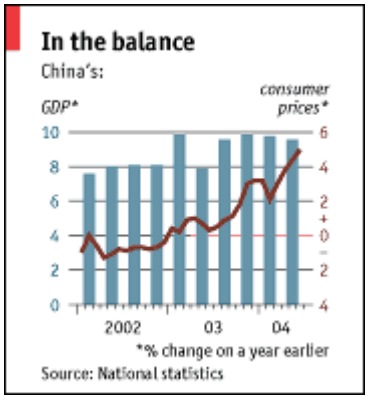
After some difficult years, **Charles Schwab**, one of America's leading discount brokerages, sacked its chief executive, Dave Pottruck. The company called on its eponymous founder and present chairman to resume the helm.

See article

J.P. Morgan Chase, America's second-biggest bank, set aside $2.3 billion to cover the possible costs of litigation arising from the Enron and WorldCom affairs. In May, Citigroup, J.P. Morgan's bigger rival, paid $2.7 billion to settle a class-action lawsuit related to WorldCom's troubles.

Chinese puzzle

China's hopes of avoiding overheating in its booming economy wavered. Consumer prices grew by 5% in the year to June, after increasing by 4.4% in May, but the country's burgeoning rate of growth slowed. GDP in the second quarter grew by 9.6% over the year, down from 9.8% in the first quarter. Analysts had expected to see growth of up to 10.7%.



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John Kerry

Not Dean, not Bush, not a robot...

Jul 22nd 2004
From The Economist print edition

Candidate Kerry needs to show what he is really made of

Getty Images

Get article background

CONVENTIONS are the great set-pieces of American presidential politics. With each election they seem to become ever more stage-managed, ever less liable to produce that unguarded moment that helps define a candidacy. Yet they matter, particularly to anyone seeking to convince the American electorate that they are presidential material. In 2000, George Bush not only managed to pass that test, he also persuaded many Americans that he was a compassionate conservative. By contrast, Al Gore went off in the wrong direction. A man who could have claimed to be the guarantor of another four years of Clintonian peace and prosperity sold himself as the unlikely champion of the people against the powerful.

And now the spotlight shines on another awkward patrician Democrat. It is a measure of the turnaround in American politics over the past year that John Kerry goes into his party's convention in Boston next week with a decent chance of becoming president; in the latest *Economist*/YouGov poll, he enjoys a tiny lead over Mr Bush, whose approval rating is a weak 43%. Yet it is also clear that Mr Kerry has much to do to convince people that he is presidential material. If he is to do so, the convention, like the later TV debates, will be crucial.

So far Mr Kerry's most formidable political talent seems to be “not-ness”. He won the Democratic primaries by not being Howard Dean; now he is a whisker ahead in the polls because he is not George Bush. With the mood amongst Republicans so glum that chatter has resumed about whether Mr Bush should nudge Dick Cheney off the ticket, some Democrats may conclude that not-ness is enough. That is surely wrong. Mr Bush, who has a good record of winning tough elections, is still within fighting range. And, particularly after September 11th, there is no reason why Americans should want to hand over power to somebody they do not understand.

For that is the problem about Mr Kerry—as it was with Mr Gore when he went into his convention. Despite all those years in the Senate, despite acres of newsprint about him, despite millions of dollars of advertisements introducing people to John Kerry, almost one in two Americans do not know what he stands for. Part of the problem is personal; something of a loner in the Senate, Mr Kerry is hardly a comforting figure (asked in our poll whom they would like to have a beer or a cup of coffee with, Americans plump for Mr Bush over Mr Kerry almost as rapidly as they choose his more friendly running-mate, John Edwards, over the forbidding Mr Cheney).

This sounds superficial, but it matters. One reason why Mr Bush won last time was that he appeared happier in his own skin than Mr Gore. So at the Boston convention you can expect a lot of blather about Mr Kerry's courage, wit and great fatherly skills. But the fuss about personality ties into the big question about Mr Kerry: where exactly does he want to take America, both in foreign policy and at home?

When Mr Bush attacks Mr Kerry as a flip-flopper, he hits a raw nerve. On the dominant issue of the campaign, Iraq, the Democrats have selected a man who famously voted for the Iraq war, but against the $87 billion reconstruction package, saying “I voted for the bill before I voted against it.” Would the world's greatest economic power be run by Senator Kerry, who was a staunch supporter of free trade, or by Candidate Kerry, who has ranted about outsourcing, Benedict Arnold corporations and the need to

review NAFTA? The suspicion is that there is something robotic about Mr Kerry: that he is programmed to say what he thinks most people want to hear.

Will the real John Kerry please stand up

Is Mr Kerry truly that devoid of a credo? Taking the bulk of his record and his campaign promises, a potentially more robust and engaging figure emerges—but it is one that desperately needs to be confirmed and strengthened (see article).

On the one hand, Mr Kerry is plainly no Bill Clinton. The last Democrat to seize the presidency came to office having made an attempt to rethink his party's philosophy. Mr Clinton was a “new Democrat” with new ideas on trade, foreign policy and crime. By contrast there is no such thing as Kerryism; indeed, there is a worrying lack of detail from Mr Kerry on several questions—particularly on America's biggest domestic challenge: what to do about the generation of baby-boomers who begin to retire at the end of this decade and will eventually bankrupt many social programmes. Mr Bush's record is hardly saintly: he has made the problem worse with his tax cuts, but in terms of rhetoric he seems a little bolder than Mr Kerry on issues like privatising Social Security.

But elsewhere, there are grounds for at least hoping that Mr Kerry is moving in the right direction. As a senator, he was a fiscal hawk. Despite the howls from the White House about him being a wild tax-and-spend liberal, his main domestic scheme—rescinding a tax cut on people earning more than $200,000 and spending the proceeds on a goodish health-care plan—seems at first sight defensible.

Abroad, Mr Kerry mainly presents himself as the heir who can oversee a Bush legacy. The troops would stay in Iraq, pre-emption would remain a policy, Ariel Sharon would be backed unflinchingly. Reading between the lines a little, the Kyoto Protocol would remain unjoined; so in all likelihood would the International Criminal Court. Mr Kerry's pitch is that merely by not being the hated Mr Bush, he would be able to lure more Europeans into helping share the burden in Iraq and perhaps even reforming the United Nations.

Would this work? Given the levels of discontent with Mr Bush around the globe, it is hard not to believe that Mr Kerry's softer pitch would deliver some immediate benefits. But many of the gaps across the Atlantic or in the Middle East cannot be solved simply by being more polite. And even the Europeans know there are advantages in dealing with a president—such as Mr Bush—who makes clear where he stands on issues.

Which brings the subject back to Mr Kerry's performance in Boston. The task next week is not just to inject Mr Kerry with more charm, or even to come up with a string of small policies that will appeal to 537 more voters in Florida. It is to bring the robot to life.

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Local resources and global assets

Saving the rainforest

Jul 22nd 2004
From The Economist print edition

The rich world wants a say in the fate of the world's rainforests. It should put its money where its mouth is

Get article background

THE world's rainforests are owned by the mainly poor countries they cover—but at the same time they are a global asset. Cutting them down for profit, or to free land for farming, is a tempting source of income for their owners. Left intact, on the other hand, the forests are sinks that withhold carbon from the atmosphere, mitigating the problem of man-made global warming; and they are rich storehouses of biodiversity, another global resource, as well. Plainly, a balance between local and global interests must be struck. How, exactly?

The owner-occupiers consider this question with understandable suspicion. The easiest way to rile Brazilian officialdom is to suggest that the Amazon rainforest belongs more to humanity than to Brazil (and the other countries it covers). The Ministry of Agriculture recently berated *The Economist* and others for suggesting that agricultural expansion had anything to do with deforestation. The connection is obvious—but the denial highlights the sensitivity.

It all adds up

Deforestation in the Amazon starts with land speculation and logging, but ranching, some of it highly competitive, is the main use to which cleared land is then put. Soya, the most lucrative crop, sometimes arrives later, prompting ranchers to open new fronts in the forest. These and other activities, including slash-and-burn agriculture by small farmers, have levelled about 15% of the Amazon in the past few decades and are carving away about ½% of the forest a year. Overall, deforestation in the tropics may account for 10-20% of the carbon released into the atmosphere by human activity during the 1990s. Deforestation in Brazil and Indonesia alone amounts to roughly four-fifths of the annual reduction in carbon emissions mandated by the Kyoto Protocol from 2008 to 2012.

Tropical countries—which are usually poor—should not be denied the benefits of any and all deforestation. Brazil's commodities boom has helped the country to avoid a financial crisis lately, despite enormous foreign debts. Last year, farming was one of the few bright spots in an economy that shrank 0.2%. The United States and Europe chopped down most of their forests over the past few centuries (though in recent decades North America has reforested). Who are they to tell Indonesia, Brazil and Congo to do otherwise?

Self-interest alone does in fact argue for some restraint. Large-scale deforestation has little-understood effects on the local climate, which may well do the deforesters more harm than the rest of the world. Beyond a certain point, deforestation simply doesn't pay. Less than 20% of the Amazon forest is suitable for soya, at least with the current technology. Ranching can go further profitably, but not without limit. Some of the Amazon's defence is, or should be, home-grown.

Yet the deforestation that is optimal for Brazil is still likely to be greater than what would suit humanity as a whole. It makes sense, therefore, to come up with ways to make maintaining forest as rewarding for Brazil as it is for the world, once the broader benefits and opportunity-costs are taken into account. When that calculation has been made, the rest of the world should foot its share of the bill.

Such a system would not aim, as a matter of principle, to stop all tropical deforestation. The right approach would aim to reward carbon sinks anywhere (not just in the Amazon) at a rate equal to the marginal costs of carbon added to the atmosphere. In some cases, reducing carbon with forests will be more expensive than reducing it by other means (for instance, consuming less energy, or extracting carbon from fuel and burying it). So far as global warming is concerned, a well-designed system would not discriminate in favour of preserving the Amazon over other rainforest, or preserving any rainforest over other ways of abating carbon.

At the moment, such mechanisms barely exist. The Amazon Reserves and Protected Areas project, a partnership between Brazil's government and international organisations such as the World Bank, is supposed to invest $400m over ten years in protecting forests. The plan should safeguard 14% of the rainforest, but mainly in areas remote from the front of deforestation. The Clean Development Mechanism of the Kyoto Protocol offers emitters of greenhouse gases a way to offset this pollution by paying for projects that reduce emissions or sequester carbon in new forests. But it does not permit paying for “avoided deforestation”. In general, the Protocol, largely at the behest of rich-world greens, frowns on carbon sinks, apparently regarding comparatively painless ways of reducing global warming as insufficiently punitive.

Ways to pay

If conservation of tropical forest offers global benefits, ways must be found to charge beneficiaries globally. These are beginning to emerge. There is a fledgling market for payments for “environmental services”, such as sequestering carbon and preserving biodiversity. Peru, for example, offers “conservation concessions” to groups with the means and know-how to manage forest. A proposal for “compensated reduction” of carbon emissions would discourage deforestation and give developing countries, which have few commitments under the Kyoto Protocol, a bigger role in reducing greenhouse gases. Countries that reduce deforestation in 2008-12 below a certain baseline would be able to sell carbon certificates to governments or private investors. Assuming a carbon price of $5 a tonne, such credits would make a hectare of forest more valuable than one of pasture (though not as lucrative as soya). Another proposal is to dodge the Kyoto thicket by dividing forests into large blocks, which could be auctioned off to bidders with an interest in preserving them. Then there is market pressure: consumers can pay a premium for beef, soya and timber from producers certified as obeying environmental standards.

Such initiatives are not the whole answer, which must include developing institutions capable of policing the frontier (see article). Yet the world has begun to recognise that it needs the Amazon and other tropical forests. The time has come to start paying for them.

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Charles Jenkins

Their object all sublime

Jul 22nd 2004
From The Economist print edition

America should take care before prosecuting an alleged deserter

AFP

DESERTION in the face of the enemy is rightly regarded by every country in the world as a very grave military crime. If it is allowed to go unpunished, it undermines the morale of those in the front line of defence: it directly imperils the security of the state and everyone in it.

So there are powerful reasons why Charles Jenkins, an American soldier who apparently deserted to North Korea while on patrol along Korea's demilitarised zone in 1965, ought to be speedily tried and, if found guilty, treated with the full rigour permitted by the Uniform Code of Military Justice now that he is in Japan and within reach of the American authorities. More than 130,000 American troops are engaged in putting down a bloody insurgency in Iraq; almost another 20,000 are in the line of fire in Afghanistan. In both places, the dangers are vastly greater than they were in the DMZ 12 years after the Korean armistice—and the cause less popular. Lenience in the face of desertion could send a dangerous signal to these men and women. Mr Jenkins (see article) has allegedly compounded his sins with other offences, including offering support to the enemy, most notably by appearing in two North Korean films playing stereotypical cigar-chomping officers in the capitalist American armed forces.

All this is true. And yet the American authorities should move with caution. By voluntarily leaving North Korea with his children in order to be reunited with his Japanese wife, who left two years earlier, Mr Jenkins has captured many hearts in Japan—including, it seems, that of the prime minister, Junichiro Koizumi, who this week appealed for him to be treated with “special consideration”. Whether he originally went over voluntarily or not, all those years ago, Mr Jenkins is seen by most people in Japan as a victim, like more than a dozen Japanese who were spirited away to the hermit kingdom in the 1970s and 80s. Mr Koizumi, among only three or four world leaders, has gone far out on a political limb to support America in the war on terror, and deserves a favour in return. America and Japan share a robust view of the perils posed by North Korea, and it would be rash to jeopardise that agreement by the prosecution of an elderly and sick man.

The music of Gilbert and Sullivan seems apposite here. In “The Mikado”, the emperor of Japan sings of his “object all sublime”, which is, he says, “to let the punishment fit the crime.” Mr Jenkins's reward for deserting to the North Koreans, if that is indeed what he did, has been to live for 39 years in one of the world's poorest and most repressive states, even if he has been a well-treated guest there. For 24 years he has been married to, and shared the anguish of, a Japanese woman who was abducted by North Koreans while she went for a walk by the sea. He has had to bring up his two children in a land with no hope. If ever the punishment fitted the crime, it has already done so in the case of Charles Jenkins.

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Nationalism

King Mikhail the good?

Jul 22nd 2004
From The Economist print edition

Georgia's leader may succeed as a nationalist who believes in law

EPA

CAN there be such a thing as a good nationalist, in regions where violent chauvinism—asserting the interests of one nation, ethnic group or faith at the expense of all others—has already taken a terrible toll in blood? In the wilder bits of the ex-communist world, that is something more than just a brain-teaser for political scientists.

Mikhail Saakashvili, the charismatic young president of Georgia, is trying to persuade the world that this question has an affirmative answer (see article). Since taking power half a year ago, he has tugged hard on his people's patriotic heart-strings. He has devised new state symbols and displayed them prominently; and he can deliver thumping nationalist speeches when the occasion demands.

But in fairness, Mr Saakashvili has also been quite careful to tell the world, and his compatriots, what his gestures do and do not mean. He does want to extend the writ of Georgian government to the whole of its territory, including the breakaway South Ossetia region; but he has pledged to deal generously and inclusively with non-Georgian minorities, amounting to at least 30% of the population. That is in healthy contrast to the early years of Georgian independence.

Boris Tadic, the new Serbian president, is another pro-western politician who knows how to beat the patriotic drum. At his inauguration this month, he caused a sensation by playing Serbia's monarchist anthem, “God of Justice”—not heard in official places for many decades—and pointedly kissing the Serbian flag. Nobody suspects Mr Tadic of being an ultra-nationalist, but he clearly feels he must assuage his compatriots who do lean in that direction.

For the western institutions that have spent billions of dollars trying to exorcise the demon of chauvinism from the Balkans and the Caucasus—and to promote the idea that nations and ethnic groups must co-operate to solve their post-communist problems—the persistence of nationalism is a puzzle and a disappointment. Bosnia's protectors are frustrated by the fact that after eight years of foreign tutelage, politics there is still dominated by parties which assert the interests of one ethnic group—Muslim, Serb or Croat—rather than the whole country. Meanwhile, Kosovo's protectors would rejoice if Albanians and Serbs merely stopped killing each other; a wave of anti-Serb violence in March was a severe setback. In the Caucasus, years of international mediation have brought the conflict between Armenians and Azeris no closer to a solution, and there is a powerful lobby in Azerbaijan which favours going back to war.

With the law, or against it?

Given that nationalism shows no sign of disappearing, can there be a meaningful distinction between the “good” and “bad” varieties? Here is one possible litmus test: is nationalism being used to promote the rule of law, or to defy it?

At its mildest, nationalism can be a galvanising force, and perhaps a necessary device, for any leader who is struggling to construct a law-based state in places where government of any kind has all but collapsed. That is what Mr Saakashvili says he wants: if he can turn his ramshackle polity into a minimally efficient machine for collecting tax, providing services and guarding its citizens, then it should

automatically earn people's loyalty—whatever their ethnic background.

At the other extreme, nationalism has often been a cover for exactly the opposite: policies which stir up hatred both inside and outside a country's borders, and use the resulting conflict as a smokescreen for behaviour which mocks the rule of law—stealing from the public purse, robbing the victims of war and maintaining irregular armies which live off larceny. In the chaos, and above all uncertainty over property rights, which followed the collapse of communism, the anti-law variety of nationalism was an irresistible temptation for politicians who wanted to play on people's fears and grab a share of the loot. Serbia's strongman, Slobodan Milosevic, was perhaps the prime exponent of this tactic—but by no means the only one. From the Adriatic to Central Asia, the politics of the ex-communist world have been marred by warlords who steal or smuggle while exercising authority in the name of tribal, national or ethnic sentiment.

If Mr Saakashvili can prove that his nationalism is of the law-promoting, rather than the law-scoffing kind, then he will have performed a valuable service—not just for his own country, but for all the hard-pressed policymakers who are wondering how to put conflict zones together again.

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Microsoft's dividend

Bill's billions

Jul 22nd 2004
From The Economist print edition

Microsoft's gigantic dividend pay-outs and share buy-backs deserve praise

IT IS difficult to describe Microsoft, the world's biggest computer-software company, without using superlatives of one kind or another. A mere tiddler just two decades ago, it grew faster and over a longer period of time than any of its rivals in one of the world's fastest-growing and most unpredictable industries. Along the way Bill Gates, Microsoft's founder and driving force, became the richest man in the world, and then its most generous philanthropist. The company also became fabulously wealthy. It is currently sitting on what is the world's biggest pile of corporate cash. This week, however, Microsoft racked up another superlative by pledging to give a lot of this money back to shareholders (see article). Its plan to disburse, through a variety of means, up to $75 billion over the next four years to shareholders is the largest such pay-out in history. Yet like many of the superlatives regularly applied to Microsoft—most ruthless corporate monopolist also often crops up—its latest achievement raises mixed feelings.

Many of these are misplaced. The company deserves unreserved praise for its decision to return so much money to shareholders, in fact even more praise than it will probably receive. Shareholders seem pleased, but hardly thrilled. Microsoft has long been under pressure to do something of the kind from analysts and investing institutions. Most investors had expected it to respond to these demands. Despite a general welcome to its announcement, Microsoft's share price rose after the announcement but did not soar. Grousing has already begun from some investors that the company's pay-out has been too long in coming and is not big enough.

Given the eye-watering amounts involved, that may seem extraordinary. Microsoft has said it will make a one-time dividend payment in December worth $32 billion. Some $3.3 billion of that will go directly to Mr Gates, the firm's largest shareholder. (He promptly pledged to give this entire amount to his charitable foundation.) On top of that, Microsoft will spend $30 billion to purchase its own shares over the next four years, a manoeuvre to put more money in shareholders' pockets. It will also double its regular annual dividend payment to $3.5 billion. What more could anyone want?

A lot more, apparently. The grousers point out that Microsoft's excuse for waiting so long, and letting its cash reach some $60 billion, was flimsy. None of the many lawsuits it faced, or has recently settled, threatened to put even a dent in this hoard. Even after the special dividend this year, Microsoft will have well over $20 billion in cash, with another $15 billion of investments it can quickly turn into cash. Moreover, it is accumulating cash at the staggering rate of $1 billion a month.

All this is true. But what the critics fail to recognise is that Mr Gates, who clearly had to approve Microsoft's decision, could have brushed off pressure for any pay-out. Given its size, and the stakes held by top managers and employees, Microsoft seems immune to takeover. Its share price has stagnated recently, but why should it care about that? It doesn't need more money from shareholders, and its shares are still trading at a very high price-earnings ratio of more than 40. With their stock options no longer promising future riches, many Microsoft employees wanted their bosses to pay big dividends. But Mr Gates could have ignored them too. Few other tech firms are any longer offering the chance to make a killing.

Instead, Mr Gates could easily have held on to the money, and squandered it on ill-fated diversifications and big acquisitions. The latter, admittedly, would probably not be allowed in the computer industry by

antitrust regulators. But Microsoft has a ready-made rationale for diversifying into other industries—every corner of the economy is being transformed by computer technology. The firm could have used this to justify buying a car, energy, health-care, consumer-products or any other kind of company. Weirder things have happened. A disciplined Mr Gates deserves credit for not venturing down this well-trodden and costly track of folly.

A responsible monopolist

The real reason to feel ambivalent about Microsoft's huge pay-out to shareholders lies elsewhere—namely, that it has been made possible by a failure of public policy. Microsoft's unprecedented river of cash, sustained over years, is the clearest signal that it retains an unhealthily dominant position in the computer industry, and that it should have been broken up, as America's antitrust authorities sought, and failed, to do in 2001. Mr Gates, and the company he leads, has been determined and, yes, ruthless in preserving and exploiting its near-monopoly in computer-operating systems. The public interest, and Microsoft's own record for disappointing technological innovation, would have been better served if this near-monopoly had been hived off into a separate firm.

But Mr Gates can hardly be blamed for not seeing things this way, and for pushing Microsoft to earn as much as it can. He may be a ruthless monopolist but, as this week's dividend announcement indicates, he is also a responsible one when it comes to serving the interests of fellow shareholders. At least in this, other managers ought to follow his example.

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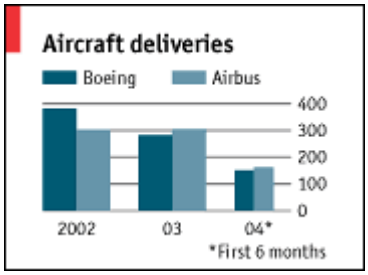
About sponsorship

Aircraft subsidies

Enough is enough

Jul 22nd 2004
From The Economist print edition

The dispute between Airbus and Boeing is growing louder again. It should be resolved, calmly



ANOTHER air show, another shouting match about subsidies. This week the venue was the biennial Farnborough gathering outside London, where Airbus once again surpassed its rival Boeing with $11 billion of new orders. For nearly 20 years, each advance by Airbus has prompted protests from Boeing, as the European manufacturer began to overtake America's biggest exporter.

Now that the former upstart, Airbus, has, for the moment, become the more successful member of the duopoly which the two firms enjoy in the market for big passenger jets over 100 seats, Boeing argues that Airbus should have outgrown government help for launching new commercial-airliner models, which can require up to $10 billion. Airbus executives will no doubt point out that Boeing is getting tough just as it is about to receive fresh dollops of subsidy itself. This seemingly abstruse argument has threatened to spark a wider trade war in the past. It should not be allowed to do so again.

When Airbus first set out to challenge Boeing's dominance, it obtained all its capital for launching new aircraft from European governments. After an ugly spat in the late 1980s, which almost spun out of control, the Americans and Europeans signed a truce in 1992, agreeing to limit the amount handed out by both sides. They also pledged to reduce these subsidies gradually.

A lot has changed since then. Europe's airlines are now largely privately owned, rather than beholden to governments for money to buy new planes. Boeing and Airbus have changed too, as the industry has become more global. They both now spend about $5 billion annually in each other's backyard buying not just aircraft parts, but whole sub-assemblies such as landing gear and avionics systems. They share suppliers on both sides of the Atlantic, so a trade war could upset more than airline customers.

Nevertheless the tit-for-tat accusations are once again escalating. Boeing reckons that Airbus has received some $15 billion in launch aid. To this, the European company replies that Boeing has for decades benefited from indirect aid from the huge American defence budget, and lately received tax breaks worth over $3 billion from the state of Washington to assemble its new 7E7 airliner there. Boeing is also in line for Japanese government subsidies via its partners in the project. But EADS and BAE Systems, the parent firms which own Airbus, have a military turnover close to Boeing's, so they are probably deriving a similar, and similarly disguised, financial subsidy from military work. Moreover, Airbus's European factories also enjoy various forms of government support locally.

Airbus points proudly to the fact that the more its aircraft models succeed in the market, the more it repays the government loans, with interest. That misses the point. The launch aid is repayable only if the aircraft sells in reasonable numbers. So the government is, in effect, sharing the risk with Airbus, which is now supposed to be a wholly private firm. This risk-sharing makes it easier for Airbus to make bigger bets, such as its new A380 giant plane.

A non-aggression pact

There is an answer to all this, and it is not trade war or rumours of war. Almost everyone—governments, airlines, parts suppliers, travellers and taxpayers—has a clear interest in maintaining healthy competition between Boeing and Airbus. Although this is difficult to maintain in any duopoly, it is not impossible. Both firms should be made to open their financial accounts to greater scrutiny, so that it is clear where their investment funds are coming from, and where subsidy exists and where it doesn't.

That should make it easier to agree on another programme, to bend a cold-war phrase, of mutual balanced subsidy reduction and, eventually, even to eliminate them. As subsidies wind down, both companies could finance expensive new models by spreading the burden among risk-sharing partners, something they are, to some extent, already doing. Behind the usual overblown rhetoric, there are signs that both firms realise this is the way forward, for them as well as for customers and governments. It is time to start talking turkey.

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Letters

Jul 22nd 2004
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Ever-closer union?

SIR – Jack Straw talks down the integrationist significance of Europe's draft constitution (By invitation, July 10th). He does not convince me. For instance, making the rotating European Council presidency into a two-and-a-half year position, renewable once, will hardly shift powers back to member states. On the contrary, if the future full-time president of the council is in the mould of a Jacques Delors rather than a Jacques Santer or Romano Prodi, he will more than just broker the views of member states, as presidents do now. In pushing distinctly European policies, incumbents may even outdo the European Commission.

Furthermore, "spelling out, policy by policy, the areas of [EU] competence" need not be done in such an unintelligible manner that no one can find out what the sum of the transferred competences amounts to and at what point their limits will be overstepped. Promoting Charlemagne's idea of European integration, to my mind, requires rejecting the present draft as quickly as possible and working out something really sensible instead.

Karl Meessen
Jena, Germany

Injecting some sense

SIR – The remarks by Aleksei Mazus, director of the Moscow AIDS Centre, are representative of the Russian government's refusal to deal with the epidemic effectively ("In sickness and in chaos", July 10th). The 50 or so needle-exchange programmes across Russia offer the best chance of reducing the further spread of HIV and connecting drug injectors with much needed health and social assistance. Yet these programmes receive no support from the Russian government, despite much evidence proving that needle exchange greatly reduces the spread of HIV without increasing drug use.

The assertion that drug users cannot adhere to or benefit from antiretroviral treatment is also misguided. Russia, as well as Asian countries with large injection-driven epidemics—including China, Indonesia, Iran and most of the rest of South-East Asia—will achieve nothing towards addressing HIV if they continue to exclude drug users.

Matthew Curtis
Open Society Institute
New York

The road ahead

SIR – It is a shame that you let the false premise that new capacity breeds new demand get in the way of a proper evaluation of competing alternatives for supplying more road capacity ("Hot ideas for slow traffic", July 10th). Demand for additional road space already exists—witness congestion. Additional usage will be small compared with this and take time to emerge. Widening the most congested motorways would help to meet some of the existing and forecast demand while much-vaunted road-pricing schemes are developed. Even with a political will these are at least 15 years away—about the time it would take to plan and build a new motorway.

James Hookham
Policy director
Freight Transport Association
Tunbridge Wells, Kent

Black marks

SIR – American blacks, whose ancestors usually arrived on slave ships, were hardly immigrants in the usual sense of the term. So Lexington's comparison of their achievements with those of Jews, Asians and other voluntary arrivals does not make much sense (July 10th). Moreover the successors of Frederick Douglass were not mainly "self-educated". Booker T. Washington, W.E.B. DuBois, A. Philip Randolph, Charles Houston and legions of similar figures in America's black history went to colleges and universities.

Worst of all, Lexington seeks to blame blacks for their present social, educational and financial predicament. How simple that would be if true: no need to worry that a quarter of blacks live below the poverty line (compared with 8% of whites); or that levels of home ownership, wages and unemployment among blacks are substantially worse than those of whites; or that a third of the prison population is black. Most objective observers would attribute such persistent and long-standing inequalities to endemic, systemic problems that need to be addressed by the whole nation. Blaming the victim obviates that need. It is just not very convincing, or useful.

Bill Grantham
Los Angeles

SIR – I am offended by Bill Cosby's comments and your article. I am a 30-year-old married African-American mother of three. I have always taught my children to be high achievers in school, as I was. I teach them how to speak correct English and what is acceptable behaviour. At one time we were very poor, but we have never blamed anyone for our misfortune or mistakes. My husband and I have worked hard to make a comfortable living for our family. We certainly do not believe that affirmative action is a reason to give less than our all. Each individual and family should take responsibility for themselves. They should not be grouped together because we are not all equal.

Tomika White
Decatur, Georgia

Kerry v Bush

SIR – Why do you describe John Kerry as "damnably dull" and a "haughty Bostonian", exemplify his presentation skills as making a "firefight in Vietnam sound like a mathematics textbook", remind us that he went to "expensive private schools", picture him "like a portrait of himself by Edvard Munch", allege that he "could put a hummingbird into a coma" and state that "he is the political equivalent of Valium" ("Kerry's dream ticket?" and "Gee up", July 10th)?

Should you not ask at the same time whether George Bush (an arrogant Texan?) is sparkling or charismatic? Or, more important, honest and decent? Does he not deliver his speeches with an air of not quite understanding what it is all about, while smirking at all the wrong moments? Did he not go to (pricey) Harvard? Is he not a moving cartoon of himself? Is his record of communicating with voters and allies not a disaster?

You rightly ask Mr Kerry to articulate why he should be president. He should be given the benefit of the doubt. The present incumbent clearly has not been able to address the question in any meaningful way since 2000.

D.F.Rijkels
Wassenaar, The Netherlands

SIR – You say that "Mr Kerry can make a firefight in Vietnam sound like a mathematics textbook." Surely this level of dispassionate reporting is only achieved by *The Economist* itself. Would it not be nice if America had a president who was similarly intelligent and articulate?

Andrew Bogan

Seoul

Red dragon?

SIR – Accompanying an article on Hong Kong you depict a dragon with wings as representing China ("The parade gets rained on", July 3rd). In Chinese mythology dragons do not have wings. This is clearly a dragon of the British sort. Perhaps you are suggesting that the Chinese government stifles the democratic movement in Hong Kong, just like the colonial government of Britain did for 150 years?

Wong Ling Yee
Carlton, Australia

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John Kerry

Who is John Kerry?

Jul 22nd 2004 | WASHINGTON, DC
From The Economist print edition

AFP

A mystery man to most Americans, Mr Kerry offers them the chance of a respite, a pause to take a closer look at themselves

Get article background

JOHN KERRY is the purloined letter of American politics. In Edgar Allan Poe's short story, a French minister steals a compromising letter from the royal palace and hides it in plain sight above the fireplace, while the police tear up floorboards, furniture and garden to no avail. Mr Kerry has been hiding in plain sight since 1969, when he returned from Vietnam to lead Vietnam Veterans Against the War.

This year he won the Democratic primary earlier than usual. He was smothered with some of the most flattering media coverage a candidate has ever got. His advertising and fundraising efforts have shattered records. Yet according to a poll for *The Economist* by YouGov, almost half of American voters say that they still have no idea of who he is or what he stands for.

Next week, Democrats flock to his home town, Boston, for their party's convention with one overriding aim: to rescue their stealth candidate from his obscurity, define him more clearly and sell him to voters. It will not be easy.

Mr Kerry's politics are still undefined. Republicans say he is the Senate's most left-wing member, an archetypal “Massachusetts liberal”. Yet he has been close to the Democratic Leadership Council, the party's moderate, pro-business wing, for years. He has spent almost two decades in the Senate yet has no major items of legislation to his name: his time was spent investigating government abuses rather than making law.

His personality is ill-defined, too. Despite millions of dollars of biographic advertising, he does not connect with voters. He is an aloof Boston Brahmin. Other American aristocrats became successful politicians by reinventing themselves, some as an average Joe (George W. Bush), others as stars (John Kennedy), others as unapologetic sons of privilege (Teddy Roosevelt). Mr Kerry is none of these.

Even his friends and allies provide few clues to his personality. During his 19 years in the Senate, he has established few political friendships: he is close personally to John McCain, a fellow Vietnam vet, but their legislative records are far apart. His campaign team is neither a close-knit group of friends and advisers from his home state (like President Bush's), nor hired Washington hands (like Al Gore's when he ran for the presidency in 2000), nor a coterie of former advisers to ex-President Bill Clinton. Instead it consists

of all three. They circle him like out-of-work actors round a casting director, wary of each other and greedy for his attention. By his friends, ye shall not know him.

Mr Kerry revealed corners of himself during the primaries. In winning the first two contests, he showed he is not easily stampeded by setbacks. A month before his first triumph in Iowa, his campaign was being written off. He fired his campaign manager, but otherwise stuck to his strategy. He refused to panic, revealing that he has a calm grasp of his long-term interests and is not easily distracted.

His stump speeches are eye-crossingly dull. He expresses simple ideas in weird, circumlocutory ways, showing special fondness for multiple negatives. Yet his choice of the fluent, charismatic populist John Edwards as his running-mate suggests he is unafraid of his weaknesses, and does not worry about being upstaged. His self-confidence is steady.

Kerry's many images

He makes few mistakes. Unlike Mr Gore, he has been disciplined about his campaign image. He does not show up in earth tones one day, blue suits the next. But while his campaign has avoided the abrupt shifts of mood and image, it has not been consistent.

At different times, the Democratic candidate has campaigned as Cautious Kerry, the moderate challenger to fiery Howard Dean; as Veteran Kerry, the war hero who would go toe to toe with Mr Bush; and as Competent Kerry, the technocrat assailing the president as the bungler who messed up the hunt for Osama bin Laden and the occupation of Iraq. Recently. he has campaigned as Conservative Kerry, challenging Mr Bush on God and country by claiming to represent “conservative values”.

To some extent, these changes reflect the inevitable development of the campaign itself. Still, there has been no compelling message. That, argue Republicans, is because there cannot be. Mr Kerry is hard to define because he lacks a centre of gravity, any deeply held set of convictions. He has shown personal, not political courage. He wants to straddle both sides of every issue. On his return from Vietnam, he dramatically threw his medals over a fence in protest against the war. Only later did it turn out that he kept his Silver and Bronze stars, throwing away his ribbons and the medals of a fellow veteran.

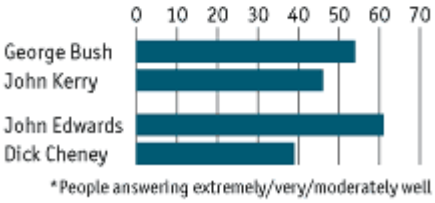
He voted against the first Iraq war, in favour of the second, and against the $87 billion Iraqi reconstruction package. He opposes gay marriage personally but favours its legalisation by states. He described affirmative action as “inherently limited and divisive”, but then supported it. There is much about Mr Kerry that does not quite add up. He is war hero and war protester. A notable political comeback, he is determinedly unexciting. He is a policy expert who sells himself on his biography. As Richard Nixon remarked in 1971, “Well, he is sort of a phoney, isn't he?”

A question of character

*How well do you think each of the following characteristics applies to George Bush and John Kerry? %**

	Bush	Kerry
Trustworthy	51	48
Intelligent	60	78
Cares about people like me	46	53
Tough	67	49
Knowledgeable	55	71
Moral	60	52
Flip-flops on the issues	35	55
A strong leader	58	48
Is too close to special interests	54	48

Who would you rather hang out with for an hour over a beer or a coffee? %



*People answering extremely/very/moderately well

Sources: *The Economist*/YouGov. Poll of 1,433 registered voters conducted July 19th-21st

He never quite belonged

Nixon was too harsh. Mr Kerry's personality seems undefined partly because it is rootless and impermanent. In their excellent biography, “John F. Kerry” (Public Affairs Books, 2004), three *Boston Globe* reporters quote his reaction to a meeting in honour of Joe Moakley, who represented the close-knit neighbourhood of South Boston. “I felt a pang as I listened to him talk about the lessons learned in that community,” Mr Kerry said. “Because one of my regrets is that I didn't share that kind of neighbourhood. My dad was in the foreign service. We moved around a lot.”

This put him out of step with his colleagues. It was another Boston Democrat, Tip O'Neill, who said, “all politics is local”. Massachusetts politicians tend to be deeply rooted in their neighbourhoods. Mr Kerry is not. He has never quite lived down his reputation as a carpet-bagger, earned in his early days. Searching for a congressional seat to contest, he registered addresses in three different districts.

And just as he did not fully belong to the traditional world of Massachusetts politics, so he was never wholly part of Boston's aristocracy either. Through his mother, he is related to two of America's oldest families, the Winthrops and the Forbes. But his grandfather was born in what is now the Czech Republic, leaving to escape anti-Semitism. He lost two fortunes and shot himself after losing a third.

Mr Kerry is now rich, having married wealth (his second wife, Teresa, is worth about $1 billion of Heinz money). He went to elite schools (St Paul's, Yale) and joined elite clubs (Yale's Skull and Bones, as did Mr Bush). As a young man Mr Kerry went sailing with John Kennedy and dated Jacqueline Kennedy's half-sister. But his family was still seen as a recent member of that exclusive bunch.

He has also had a slightly awkward relationship with the national Democratic Party, though this tells as much about the party as it does about him. The Democrats are now united in the aim of getting rid of Mr Bush, and this has superseded their own ideological debates. Hence, the appetite for intra-party confrontation is lower than it was. But the leader still needs to put on different masks to please different constituencies. In responding to this need, Mr Kerry has been neither coherent nor brave.

But he has been successful. Democrats have rallied to him—and not entirely out of hatred for Mr Bush. Anger was strong against Mr Bush at the 2002 mid-term election, yet the Democratic leadership at that election was a disaster, and the party was slaughtered. Its leaders could not agree whether to support or condemn the Patriot Act, whether to support or criticise the new Department of Homeland Security, whether to encourage or restrain the movement to war. Mr Kerry's undivisive leadership, and ability to avoid bad mistakes, deserves more credit than it has got.

Perhaps the difficulties in identifying his core beliefs are largely a consequence of his habits of thought and mind. In making decisions, his approach is deliberate. He marshals material exhaustively, immerses himself in details, and forms judgments on a balance of competing evidence. At their best, such thought processes reveal a wide-ranging, diligent mind, sensitive to nuance, complexity and fine distinctions. At their worst, they can be nitpicking and ambivalent, unable to see the wood for the trees.

Mr Kerry marries flexibility of thought with secretiveness in decision-making. He conducted his long search for a running-mate in private. He consulted widely but was in no hurry to announce his choice. That is consistent with his modus operandi in the Senate. Though he held long question-and-answer sessions with aides, they frequently did not know his decision until he delivered his vote on the floor.

The contrast with Mr Bush is instructive. The president tends to go back to first principles. He strips each issue down to its essentials and presents arguments in black and white, right or wrong. He makes decisions easily, and moves on.

Which habit of thought is superior is a matter of opinion. Mr Bush appears principled but simple-minded; Mr Kerry knowledgeable but wanting to have it both ways. Judged as a presidential manner, Mr Bush's crisper cast of mind is usually seen to be better. It is the distinction between legislative and executive abilities. Senator Kerry still has a way to go before convincing voters he can make the transition.

Looking at the record

In trying to identify a set of principles, the most obvious place to start is Mr Kerry's voting record. Yet this is less simple than it sounds. Is he a liberal? The Republicans say bluntly yes. And it is true that the *National Journal*, a magazine that keeps score of legislative records, calculated that in 2003 Mr Kerry had the most left-wing record in the Senate. But this is misleading. Out campaigning, he missed most of the crucial votes that year on foreign policy and social matters; his record reflected only his anti-tax-cut votes (which are scored “liberal” but might with equal justice be deemed “fiscally conservative”).

The truth is that Mr Kerry's voting record has changed. He did have the most left-wing record of any senator in three of the six years of his first term (1984-90). But he later moved to support more robust policies. He bucked his party's line on trade with China, which he favoured, and on education, which he said was “imploding” because of “stifling bureaucracy”. Facing down opposition from the unions, he proposed to make it easier to hire and fire teachers. This year, he proposed a watered-down version of those reforms.

During the second half of the 1990s, he was, on average, the 15th most left-wing senator, poised between the party's liberal and moderate wings. This record reflects less an ingrained liberalism than a move from representing liberal Massachusetts towards the national stage.

But in seeking to answer the question “what does he stand for?”, Mr Kerry and his advisers must focus less on what he has done than on what he promises to do, ie, on his platform. Here, some firmer conclusions are possible.

The 2004 election is the first presidential contest since the attacks of September 11th, and the first vote since the Iraq war. Understandably, it seems a momentous occasion, raising profound questions of national security. It is also the first election since Mr Bush's huge tax cuts and the last before the baby-boomers start to retire, so it also raises big issues of domestic policy.

Left fork rather than left turn

On both sides, politicians are painting the contrasts between the candidates in the starkest terms. Mr Kerry, Republicans say, would turn American security over to the United Nations, cut and run in Iraq, raise taxes and generally prove a pre-9/11 tax-and-spend peacenik. Some left-wingers hope that is true. Yet Mr Kerry is offering a mid-course correction, a left fork rather than a sharp left turn (and still less a U-turn, go back to 2000 and start again).

AP

An acute sense of America's fallibilities

His team says that a Kerry administration would spend about the same as Mr Bush on national defence. He will not give Mr Bush a monopoly of running as a war president: a quarter of the Democrats' policy platform is devoted to security. Arguing that the armed forces are stretched too thin, he proposes to increase active-duty military strength by 40,000. This is a rebuff to the notion, put forward by Donald Rumsfeld, the defence secretary, that the future lies in smaller, smarter forces.

Mr Kerry has espoused his own version of Mr Bush's pre-emption doctrine. And he has yet to offer a convincing explanation of how his Iraq policy would differ from the president's. The most striking difference between the two on foreign policy is Mr Kerry's commitment to multilateral engagement. There is a chance that a Kerry administration would be able to make a new start in international relations, lessening the tensions with Europe and the Middle East that have grown so acute under Mr Bush's rule.

But the current administration has also been seeking more co-operation with Europe over Iraq. It has found itself largely rebuffed, for there are hard differences of strategy and self-interest between the two sides. Those differences would remain even if Mr Kerry were president, so the possibility of post-honeymoon disenchantment is genuine.

On domestic policy, Republicans call Mr Kerry a tax-raiser. He would indeed repeal Mr Bush's tax cuts on people earning more than $200,000 a year. But he proposes to keep the middle-class tax cuts (as well as cut some corporate taxes). The distributional impact—more taxes at the top, less lower down—is Clintonian. The fiscal impact, says Len Berman of the Urban Institute, would not be a tax rise but a tax cut of $600 billion over ten years.

That is still much less than the $1.4 trillion of reductions that Mr Bush is proposing. Mr Kerry plans to spend all, or possibly more than all, the difference on health care. In simple terms, the election's domestic policy choice is between more tax cuts and more spending on health care.

To expand coverage for the poor, Mr Kerry would have the federal government take over from the states the full health costs of children on Medicaid; in exchange the states would dramatically increase the

number of families eligible for the plan. This would bring the long-held aim of universal health care closer: the Kerry campaign says its reforms would cover 95% of the population. The government would also assume the bit of health insurance that covers catastrophic costs. By spreading risks among the whole population, the plan would be more equitable (at the moment, individual insurance policies can be bankrupted by an accident). It might also reduce costs by 10%, say the Kerry team, though others question that.

Whatever the exact cost, the health proposals would eat up the foregone tax cuts on the rich. In other words, the main items of taxing and spending in Mr Kerry's plans cancel each other out, contributing nothing to his stated goal of halving the budget deficit in four years. In this respect, as in others, Mr Kerry is more like the president than he admits. Neither's promise of budget discipline looks plausible, though Mr Kerry seems more likely to forgo his spending plans than Mr Bush his tax cuts.

Judged by his programme, then, the challenger does not appear the unprincipled, indecisive phoney of Republican lore. His foreign policy strikes a reasonable balance of assertiveness and diplomacy. His health plan expands benefits without falling into the trap of over-ambition that undid Mr Clinton. His budget numbers do not add up—but then neither do Mr Bush's.

Seeing what's wrong with America

The question is whether Mr Kerry is more than the sum of all these parts. Can anything be learned from them to explain the persistent puzzle? Arguably, it can. His policies have one thing in common with his record: they all reflect an acute sense of America's fallibilities.

As a Vietnam vet, Mr Kerry gained notoriety, as well as praise, by accusing GIs of war crimes. In his investigations in the Senate he concentrated on government scandals, such as the Iran-contra business. Now, his multilateralism seems to be a way in which America can impose discipline on its own power in the world. And his health-care plan addresses one of America's most shameful problems, the millions without health care.

For Mr Bush, America is always a force for good. The world, in his view, will benefit from the exercise of American power. At home, the country will thrive if entrepreneurial spirits are given free rein. The job of the president is to act on those principles. For Mr Kerry, the task is more downbeat and complex: to use the power of government to temper America's failings as well as to buttress its strengths.

It is not, in some ways, a compelling vision, just as Mr Kerry is not a compelling candidate. But this year, Mr Kerry and his message may appeal to voters who want to pause for a realistic and decent reappraisal of what their country stands for, a respite from four years of heroic, hectic and sometimes heedless history-making.

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The September 11th attacks

Still haunting America

Jul 22nd 2004 | TEHRAN AND WASHINGTON, DC
From The Economist print edition

AP

Although it spreads the blame, the September 11th report raises politically awkward questions for the Bush administration

GEORGE BUSH'S initial response to the September 11th commission was defensive. He opposed setting up the panel. He negotiated to limit its access to sensitive documents. He tried to stop his national security adviser from testifying, and agreed to testify himself only with Dick Cheney alongside, and not under oath. This week, it became clearer why.

The final report—endorsed by all five Republican members and all five Democrats—does not blame the president for failing to prevent the 2001 attacks. But it, together with new pictures released of the hijackers (see above), will focus public attention again on the administration's claims to have done everything it could to combat al-Qaeda before September 11th 2001; and by raising new questions about links between al-Qaeda and Iran, the report will reopen a debate about the president's priorities in the war on terror.

The commission's main mandate was to provide an authoritative account of what actually happened on and before September 11th. The report talks of “deep institutional failings within our government”. It criticises Congress for its supervisory failures. And it includes a list of ten missed “operational opportunities” to discover the plot. Six of these occurred under Mr Bush.

The other bit of the commission's mandate was to make recommendations on ways to stop future attacks. Its headline proposal is to create a post with control and budgeting authority over 15 intelligence agencies (including the often feuding FBI and CIA). This would be part of a broader reorganisation—“a dramatic moving of the boxes” as one commission member, Tim Roemer, has put it. The restructuring would create a new national counter-terrorism centre and change the way Congress exercises its oversight, but would not create a separate domestic-intelligence agency.

Such broad proposals go further than anything Mr Bush has wanted. The new counter-terrorism centre, for instance, would have greater authority than the Terrorist Threat Integration Centre set up last year. But the president seems open to further reform. He called the recommendations “very constructive”. When the acting head of the CIA attacked the idea of a national intelligence director, Mr Bush's press secretary said pointedly that he was just expressing a personal opinion.

Intelligence reform might rumble a bit in the campaign; John Kerry has also talked about making the director of the CIA into the director of national intelligence. But it was never going to stir up as much heat as debate over priorities in the war on terror. An earlier row occurred when commission staff said there had been contacts between Iraq and al-Qaeda but no “collaborative relationship”, allowing Mr Kerry to cast doubt on the White House's truthfulness. Now, the commission has raised unhelpful questions for Mr Bush about al-Qaeda's ties to Iran.

In the final report, it says some of the 19 hijackers got safe passage through Iran in 2000-01 without having their passports stamped. This would have made it easier for them to enter America and would have enabled Iran to deny any connection.

Once the news was out, Mr Bush said this did not necessarily mean the Iranians knew anything about September 11th beforehand but “we will continue to look and see if the Iranians were involved.” By amazing coincidence, on July 17th, Iran announced the arrest of an unspecified number of al-Qaeda operatives, though two days later a government spokesman claimed “there is no well-known figure with links to al-Qaeda inside Iran.”

Possible links with Iran matter for two reasons. First, they enable Mr Kerry to cast doubt on the claim that the Iraq war was part of the wider war on terror. If Iran, not Iraq, were involved, then perhaps Mr Bush got his priorities wrong. Second, Mr Kerry could say that, two-and-a-half years after Mr Bush's “axis of evil” speech, American policy towards Iran is a mess.

Mr Bush's people have certainly been trying to persuade the Europeans to take a harder approach towards Iran's dodgy-looking nuclear-power programme. But the administration has not completed a review of Iran policy begun in 2001. Most officials in the State Department, like the Europeans, want to engage the country diplomatically. The Defence Department and Mr Cheney want to be tougher.

This familiar struggle has produced a policy vacuum, increasing debate outside the administration. In May, the House of Representatives passed (by 376 to 3) a resolution authorising the administration to use “all appropriate means”—including military ones—to prevent Iran acquiring nuclear weapons. The Senate is likely to pass a similar resolution soon. But Mr Kerry, echoing the State Department, says he would start a policy of cautious engagement with Iran. It could begin, perhaps, by talking to it about checking opium production in Afghanistan. This week, the Council on Foreign Relations, representing America's traditional internationalists, published a report endorsing engagement.

American confusion is understandable, given contradictions within Iran. Shia Iran has reason to fear militant Sunnis of al-Qaeda's sort. But the country's hardline establishment suffers from visceral anti-Americanism; and all Iranians fear reprisals from al-Qaeda if it openly takes America's side. So Iran pursues an erratic path. Sometimes it appears to help al-Qaeda operatives; at others, it clamps down. This makes it hard for the administration to formulate policy.

Meanwhile, Iran is becoming increasingly confident that, unlike Iraq, it can face America down. Only an improbable success story in Iraq, the Iranian defence minister observes smugly, would allow the United States to attack “another country”.

For Mr Bush, arguments over Iran are part of a wider problem. He claims there is one indivisible war on terror. If Mr Kerry can break down that assertion into separate questions—was Iraq linked to al-Qaeda? Did Mr Bush neglect Iran?—he will go some way towards undermining Mr Bush's war presidency.

Revealingly, the best point for the Republicans this week was the bizarre news that Sandy Berger, Bill Clinton's national security chief, is under criminal investigation because he removed documents from the National Archives that he had been using to prepare for his testimony to the commission. Mr Berger has apologised for his “sloppiness” and stepped down as an adviser to the Kerry campaign. But some papers are still missing and Republicans have implied he was impeding the commission.

Mr Berger's conduct clearly requires investigation. But squabbling over his behaviour seems a far cry from those heady days when Republicans argued the great issues of national security would prove the president's trump card.

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A Georgia comeback

Two years is a short time

Jul 22nd 2004 | ATLANTA
From The Economist print edition

A controversial Georgian lady seems to be on her way back to Washington

AP

Destination Washington

IT WAS a victory made all the sweeter by her previous defeat. On July 20th Cynthia McKinney laughed and danced with her supporters after winning the primary election which makes her the Democratic candidate for the congressional seat she used to hold.

In 2002 she lost the seat, in suburban Atlanta, when she was beaten in that year's primary by Denise Majette. A vigorous pro-Palestinian, Ms McKinney had opposed not only the Iraq war but the sanctions that preceded it. Ms Majette got the support of Jewish groups, whose donations to her dwarfed those of Arab-Americans to Ms McKinney; she also won the backing of a sizeable number of Republicans who “crossed over” to vote in the Democratic primary.

Two years later, Ms McKinney's adversary has removed herself from the scene. Back in March, Ms Majette decided to give up the House seat in order to try for the Senate seat vacated by Zell Miller. A former governor of Georgia, Mr Miller is a conservative, pro-Bush Democrat, and this rookie congresswoman is unlikely to get enough votes to replace him. But “God told me” to run, she says. Georgia's Democrats wish they could have heard the heavenly reasoning.

Ms McKinney at once declared her intention to win back her old seat, and went on to run a much smarter campaign than she had in 2002. She kept her head down, shunning the media. This meant that none of her four opponents received the national attention (and money) that Ms Majette had got. Liane Levetan, a former chief executive of DeKalb county, raised twice as much money as Ms McKinney—but only after making a $200,000 loan to herself. Cathy Woolard had won a reputation for clear-headedness in six years on Atlanta's city council, but much of her support came from outside the district.

Unlike them, Ms McKinney not only managed to get herself recognised by the suburb's voters but also recovered the widespread financial backing she got in 2002. Four-fifths of her campaign donations came from outside Georgia and 95% from outside her district.

Her success also reflects the souring of opinion about the Iraq war. In 2002 she was ridiculed for accusing Mr Bush of being the lackey of the Carlyle Group, a private-equity firm that invests in defence firms but has various Arab investors. In 2004 the film “Fahrenheit 9/11” has broken box-office records with similar insinuations. Ms McKinney went to see it with the mother of a soldier killed in Iraq. Those who opposed the war in the first place are largely happy to see her back. Those who supported it may no longer be as hostile to anti-war politicians as they once were.

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The election of judges

Guilty, Your Honour?

Jul 22nd 2004 | WASHINGTON, DC
From The Economist print edition

This year's judicial elections may be worryingly free-speaking

THERE was a Republican primary election in Alabama last month. As usual, it involved large amounts of money. One pro-business lobby poured $750,000 into candidates' campaign coffers. Roy Moore, defender of the Ten Commandments, gave his blessing to some candidates; one of them ran a radio ad saying he was a conservative Christian against gay marriage and abortion.

Nothing unusual in this, you might think—except that the people seeking office were not politicians, but judges hoping to get on to Alabama's Supreme Court. Alabama is one of 39 states where Americans get to elect their judges. The rules governing these elections have recently been relaxed in an eyebrow-raising way.

If the writing of laws is subject to the will of the people, some people will ask, why should the interpretation of the law not be? But judges are supposed to approach each case before them with dispassion. Until recently, each state's rules of judicial ethics have barred candidates for the bench from talking about much more than their families, their education and their work experience. Supervisory committees have stood ready to penalise candidates who ignore the rules. As a result, judicial races have been rather dull affairs.

The change began with a ruling in 2002 by the federal Supreme Court, “the *White* decision”, which declared that under the constitution's first amendment judicial candidates have the right to give their opinions on disputed legal or political topics. As a result, they can conduct their campaigns much as a person running for the state's governorship or its legislature can. They may air their views on abortion, or on the proper limit to personal-injury awards. It comes close, you may think, to being able to say outright how they would rule on a specific case.

The *White* decision prompted other similar moves. The federal 11th Circuit Court of Appeals, citing *White*, has struck down a law barring judges from face-to-face fund-raising. Judicial candidates in that court's jurisdiction (Florida, Alabama and Georgia) may now look donors in the eye as they hold their paws out for money. Previously, they had to do their fund-raising through a committee. North Carolina's Supreme Court has repealed rules against making campaign pledges and direct fund-raising, though that is now under review.

There has been a vigorous counterattack. Local bar associations and groups of volunteers have criticised those whom they regard as “rogue candidates”. They have also criticised special interests for trying to influence the voting. In Georgia, one watchdog asked candidates in this week's judicial primary to promise not to answer a Christian Coalition survey. It worked: only two out of eight candidates gave answers, and the coalition's main “liberal” target, Leah Sears, survived. In Alabama, the supervisory authority refused to sanction another survey of candidates asking, “Are you a born-again Christian? If so, give your personal testimony.”

But can the counterattackers stand up to the oceans of special-interest money? Judicial elections have grown more contentious, and so more costly, with business and lawyers' groups spending huge sums in contests where tort law is at stake. In the Michigan Supreme Court elections in 2000 spending passed $15m. In 2002, candidates for trial courts in Florida raised more than $14m. In 2001-02, 58 out of 65 winners of state supreme court seats had outspent their rivals.

There remains the old question: should judges be elected at all, rather than appointed? Back in 1906 Roscoe Pound, a scholar at Harvard Law School, started a campaign to have judges appointed by saying: “Putting courts into politics, and compelling judges to become politicians, in many jurisdictions has

almost destroyed the traditional respect for the bench." When he spoke, eight in ten American judges stood for election. Today, the figure is 87%. Americans are still reluctant to accept that politicians should be chosen by the people, but not judges.

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The electoral week

On the trail

Jul 22nd 2004
From The Economist print edition

Boston, meet Cicero

"I cut and paste, the old scissors and paste, write it out, have somebody type it up, read it, sleep on it, see how shitty it is in the morning."

John Kerry on his speechwriting methods. ABC News, "The Note", July 16th

Ode to Condi

"You be the flower and I'll be the bumblebee/Oh she loves me; oops, she loves me not./People say you're cold, but I think you're hot./They say you're too uptight, I say you're not./Dance around me spinnin' like a top./Oh, Condi, Condi, don't ever stop."

A country singer, Steve Earle, has written a love song for Condoleezza Rice. New York Daily News*, July 16th*

Hey kid, ever been to Guantánamo?

"He's not the shotgun-dad type, he's the joking-around-to-the-point-he-scares-the-heck-out-of-them type."

Jenna Bush on how her father treats her boyfriends. Vogue*, August 2004*

Six degrees of separation

Richard Holmes, a local historian in Derry, New Hampshire, has traced John Kerry's maternal lineage to an Irish immigrant, Reverend James McGregor, who is believed to have planted the first potatoes in America. Mr Holmes has also found a distant relationship to Britney Spears. *Associated Press, July 17th*

Cold spot in the south-west?

"The chance is that of a snowball in Gila Bend, Arizona."

John McCain on rumours that Dick Cheney will be dropped from the ticket. San Francisco Chronicle*, July 19th*

Sad seconds

"Due to circumstances beyond our control, the slightly-used internet domain name KerryGephardt.com is now available for auction on eBay."

The current price is $15.50. The owner of KerryEdwards.com wants to sell that site for $150,000.

Dirty boy

“I've told him he should go to West Virginia. He should shake hands with the people. He should be at their level and get a little coal dust on his hands, get some of that dirty dust on his hands and on his face and live in spirit with the working people of this country, the coal miners, and always remember that sovereignty rests, John Kerry, sovereignty rests with the people of this country.”

Robert Byrd, a veteran senator from West Virginia, gives advice to the Democratic Party's presidential candidate. “Meet the Press”, NBC, June 18th

Easy listening rumble

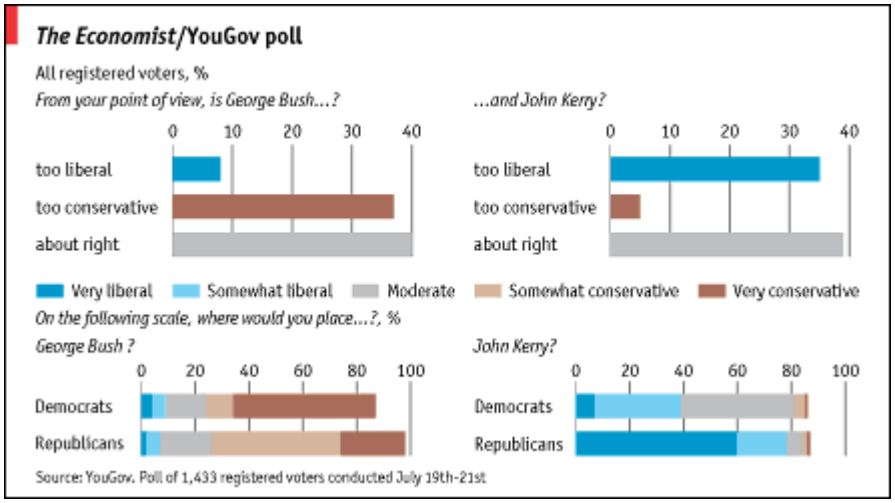
“It was a very ugly scene. She praised him [Michael Moore], and all of a sudden all bedlam broke loose.”

The Aladdin Casino in Las Vegas explains why Linda Ronstadt was asked to leave the hotel after the singer's remarks at a concert led to a near-riot by the audience. Associated Press, July 19th

Fund-losing

“I gotta go. Somebody just stole my wallet.”

Howard Dean, telephoning a speech to the Women's National Democratic Club, when his wallet was stolen. He ended his speech abruptly. New York Daily News*, July 19th*



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About sponsorship

Swing states: Wisconsin

It's still the economy

Jul 22nd 2004 | MADISON
From The Economist print edition

An interesting place that John Kerry is desperate to cling on to, but where independents tend to prefer George Bush

IT IS a quiet-looking state, a land of rolling hills, family farms and a few medium-sized cities in the middle of the northern stretch of the country. But, when it comes to politics, Wisconsin is more dramatic than it looks.

A century ago it held the nation's first mandatory presidential primary, in an attempt to curb the power of party bosses who had controlled political king-making until then. Its Progressive movement, led by Teddy Roosevelt's rival Robert LaFollette, stood up for the little guy and continues to influence American politics as far away as California. It has sent more than its share of mavericks and firebrands to the Senate, from Joe McCarthy to Russ Feingold, the only senator who opposed the Patriot Act after September 11th 2001.

This year, Wisconsin looks like having one of the most closely fought battles in the presidential campaign. Al Gore won here by fewer than 6,000 votes in 2000. The latest polls show George Bush and John Kerry in a virtual dead-heat.

At first glance, the wind appears to be blowing the Democrats' way. Wisconsin has not backed a Republican for president since Ronald Reagan won in 1984. The current governor, Jim Doyle, is a Democrat (albeit the first one since 1986). So are both of Wisconsin's senators. Mr Feingold, who opposed the Iraq war and sponsored campaign-finance reform, probably faces another close race for re-election, but most people think he will win.

Some things, though, favour the Republicans. They control both houses of the state legislature. And they may be doing better with independents, who account for one in three voters. A recent survey from the University of Minnesota's Hubert Humphrey Institute shows that nearly half of Wisconsin's independents prefer Mr Bush to Mr Kerry, with fewer than a third leaning the other way; Mr Kerry failed to get much of a bounce here despite picking John Edwards, a supposed favourite of independents, as his vice-presidential running-mate. But it is not quite that simple: once you throw in third-party candidates, including Ralph Nader (see article), they tend to lure more independents away from Mr Bush.

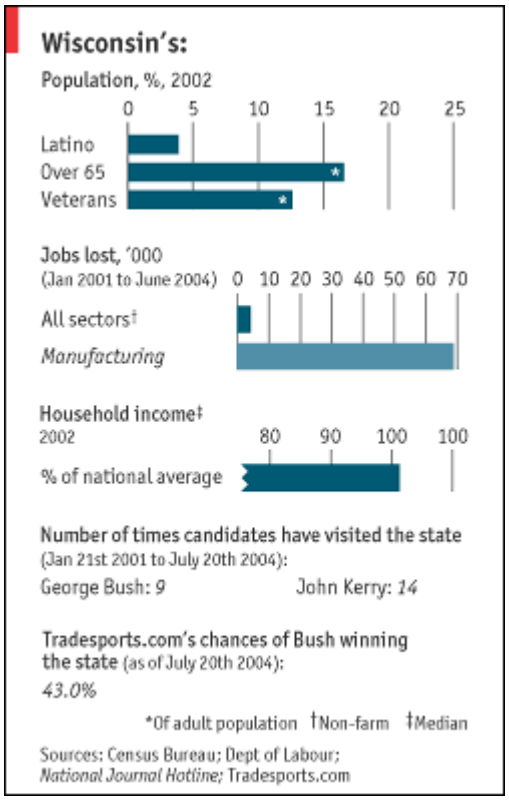
Geographically, the Republicans have most of the countryside; but that tends to be balanced by the Democrats' hold on the two main cities, Milwaukee and Madison, and a cluster of progressive towns on the Minnesota border. The swingiest part is the relatively prosperous but also relatively urban third congressional district, which encompasses La Crosse and Eau Claire in the Mississippi valley.

What are the voters likely to be thinking about most on election day? “People in the middle of the country aren't so security-conscious,” says Jeff Mayers, an analyst with WisPolitics, noting that worries about terrorism and Iraq are not the main issues in this election year. “They don't view themselves as primary targets. So it's about the economy.”

Yet the economic picture is extremely uneven. “John Edwards talks about the two Americas. We would talk about the two Wisconsins,” says Mordecai Lee, a politics professor at the University of Wisconsin in Milwaukee. And one of them is doing a lot better than the other.

The struggling half is rooted in manufacturing. Although the state is called “America's dairyland”, farms matter less than factories. The manufacturing sector accounts for a bigger percentage of jobs here than in any other state except Indiana. Car parts, machine tools and Harley-Davidson motorcycles are only a few of its products. A north-south slice of eastern Wisconsin, running roughly from Green Bay to Kenosha, has been hit hard by the manufacturing downturn. Milwaukee-Racine, the state's largest metropolitan area, has done especially badly. Although things have been a bit better lately, thanks in part to Mr Doyle's business-friendly policies, the state is still suffering from a net loss of manufacturing jobs—not good news for Mr Bush.

But, as Mr Lee points out, there is also a second Wisconsin which has a much more varied economy—and is faring better. In that crucial third district, both La Crosse and Eau Claire have held up pretty well. So, for instance, is the far north, though this is a thinly populated area where hunters and fishermen predominate, and wealthy people from Illinois and Minnesota own second homes.



The Democrats also have some strongholds in New Wisconsin. Madison, with its high-tech jobs as well as those in government, the service sector and university teaching, is a particularly healthy island. Then there are the fast-growing Wisconsin suburbs which feed Democratic cities outside the state, such as Chicago in Illinois and Minneapolis-St Paul in Minnesota.

Unfortunately for Mr Kerry, young liberals moving to Wisconsin are the exception rather than the rule in a fast ageing state. Without a smart urban centre of its own to attract young professionals, Wisconsin has seen an exodus of college graduates in the past two decades. It ranks 43rd among the 50 states in the share of college graduates in its workforce, says Terry Ludeman, a jobs expert. Meanwhile births are plummeting in its largely white population, down to about 65,000 a year from 93,000 at the height of the baby boom. As Wisconsin gets greyer, it is probably getting a little more conservative.

Out of the mid-western states that Mr Gore won last time, Wisconsin looks the most promising for Mr Bush. Most of the local money is certainly still on Mr Kerry; but few people would bet their homes—or even their cows—on him.

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About sponsorship

Lexington

The ghost at the feast in Boston

Jul 22nd 2004
From The Economist print edition

Ralph Nader may be a fading force, but Democrats do have to worry about him

IN THE slogan-filled years of the 1960s and 1970s, he was a hero to Democrats. He bullied General Motors into making safer cars; he extracted the Freedom of Information Act from a reluctant government; he confronted the nation's polluters with the Clean Air Act; he prepared the ground for a consumer-protection agency. But now, in the words of one black Democratic congressman, Ralph Nader is just another “arrogant white man” telling others what to do. Many other Democrats at the party's convention in Boston next week will share the feeling.

The belief that Mr Nader cost Al Gore the 2000 election is almost as commonplace among Democrats as the idea that George Bush stole it. Mr Nader won 2.7% of the total vote; in Florida, where Mr Gore lost by a mere 537 votes, Mr Nader got 97,488. His protest that he helped Mr Gore win some other states falls on deaf ears. The Democrats want to stop him getting on the ballot.

What's the panic? After all, today's conventional wisdom has Mr Nader down as a busted flush. He has always been something of an odd cove: an ascetic who has no wife, no car and, now 70, “cannot remember” what he had for lunch. His current campaign seems a particularly haphazard and contradictory one. He has precious little money (only $90,000 or so on hand), and is still finding it hard even to get on the ballot in most states. Last month's decision by the Green Party not to endorse him denied him easy access to the ballot in 23 states. His endorsement by the Reform Party gives him six, but at the expense of connecting Mr Nader to a party that endorsed the paleoconservative Pat Buchanan last time. Mr Nader still says he will match his 2000 tally, 43 states plus the District of Columbia; but he is guaranteed to appear in only a dozen at the moment.

The idea that Mr Nader is a fading force in American politics assumes that liberals will not make the same mistake again. The now slightly paunchy “Nader raiders”—the baby-boomer radicals who worked for peanuts investigating corruption for Public Citizen and the other action groups founded by the iconic “Ralph”—may despise John Kerry as the ultimate establishment candidate; but, runs the argument, they will still vote for him as the only way to remove the unspeakable Mr Bush.

Nobody wants this to be true more than Howard Dean. At the beginning of the year there was talk of the champion of the “Democratic wing of the Democratic Party” running as an independent if the party bigwigs rallied around Mr Kerry. Now four-square behind Mr Kerry, Mr Dean is one moment begging Mr

Nader to pull out and the next hauling him over the coals for letting conservatives help him get on ballots. “This campaign of yours is hardly pure,” Mr Dean said recently. “The way to change the country is not to get in bed with right-wing, anti-gay groups.”

It is at this point that something begins to snap. For a party supposedly not worried about Mr Nader, the Democrats seem to be unusually on their guard about him. And they are probably right to be. Even if Mr Nader does not look the force he seemed to be four years ago, even if he looks ever more the self-publicist and ever less the idealist, he can still do Mr Kerry harm.

Begin with the opinion-poll evidence. For Mr Nader to have any influence this year, the race has to be extremely tight. But that is precisely what most people on both sides expect. Nationwide, Mr Nader's poll rating is usually between 2% and 5%. That figure may well shrink as election day gets closer; but so might Mr Kerry's current lead in the polls. And it gets more painful in individual states. In Florida, where Mr Nader should be on the ballot, a poll this month gives him 3%—the same amount as Mr Kerry's lead. This week, thanks to those devious Republicans chipping in signatures, he looks likely to get on the ballot in Michigan, another of the eight battleground states where Bill Schneider, CNN's pollster, reckons he would hurt Mr Kerry. (In five more, he would make no difference, according to Mr Schneider, and only in Wisconsin might he hurt Mr Bush.)

By staying in the race, Mr Nader not only siphons off votes from Mr Kerry; he also puts him at a strategic disadvantage. With nobody to the right of him, Mr Bush can move towards the centre. Even with Mr Dean patrolling his left flank, Mr Kerry still has to keep half an eye on Mr Nader. In 1992, Bill Clinton could strengthen his claim to be a moderate by denouncing Sister Souljah, a punchy black lady; if Mr Kerry were to denounce, say, Michael Moore, it might drive plenty of university students—just the sort of Bush-haters currently registering voters for the Democrats—over to Mr Nader (along with many of their professors). In particular, things could get tough for Mr Kerry on Iraq; one in three Democrats, like Mr Nader, wants to pull troops out now.

Come on, have a swig of the real stuff

Like all the worst irritants, Mr Nader has a point. From a left-winger's point of view, Mr Kerry is different from Mr Bush only as Coke is different from Pepsi. It is not just a matter of his willingness to keep American troops in Iraq. He seems in no hurry to join the Kyoto protocol or the International Criminal Court. At home, he would stop the rich getting another tax break, but he would hardly rescind the Bush giveaways as sharply as Mr Dean once promised he would. As for money politics—Mr Nader's great issue—Mr Kerry is raising campaign cash as quickly as Mr Bush. Where are the liberal dreams of the 1960s?

Mr Nader claims that Mr Dean has turned from “insurgent” to “detergent of the dirty linen of the Democratic Party”. The jibe may seem a little weak, coming from a liberal purist willing to accept help from conservative Republicans. But many on the left of the Democratic Party—particularly those Deaniacs—can hear the voice of their conscience. Will they really “take back America” just by putting Mr Kerry in the White House? Probably Mr Nader will not matter. But the chance that he might is reason enough for Mr Kerry to look nervously over his left shoulder.

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The Brazilian Amazon

Asphalt and the jungle

Jul 22nd 2004 | ALONG THE BR-163
From The Economist print edition

Corbis

A road project in the Amazon may be the world's boldest attempt to reconcile growth and conservation

Get article background

YOU do not drive on the right of the BR-163, nor do you drive on the left. You drive on whichever bit of the road seems least likely to tear off the undercarriage of your vehicle. During the six-month rainy season, when the road becomes a river of mud, men with tractors wait for you to founder and haul you out for a fee. Under such conditions, the 1,765km (1,097 mile) journey from Santarém, a port on the Amazon River, to Cuiabá, capital of the state of Mato Grosso, can take a fortnight.

Within four years, if Brazil's government has its way, the BR-163 will be a super-highway, launching commodities towards markets in Europe and Asia, speeding computers and cell phones from Manaus to São Paulo and ending the near-isolation of hundreds of thousands of people living along its unpaved stretches.

Yet the paving of the BR-163 is feared as much as it is yearned for. The road joins what Brazilians call, without great exaggeration, the “world's breadbasket” to the “world's lungs”—the fields and pastures of Mato Grosso to the Amazonian rainforest. If the past is any guide, the lungs will suffer. Paving the BR-163 could lay waste to thousands of square kilometres of forest, carrying deep into the jungle the “arc of deforestation” through which it passes. It may visit similar destruction on the small farmers, gatherers and indigenous folk clustered along its axis. In Pará, the more northerly of the BR-163 states, older settlers are already battling loggers and land grabbers up and down the road. “On the one hand [it] will bring development,” says Cícero Pereira da Silva Oliveira, head of the union of rural workers in Trairão, a settlement 380km south-west of Santarém. “On the other it will bring ruin to the region—more land grabbing, more drug trafficking. Total violence will arrive.”

That would be a local disaster with global implications. During the 1990s, deforestation may have accounted for 10-20% of the carbon released into the atmosphere. Road development could deforest 30-40% of the Amazon by 2020, according to one estimate. But the paving of the BR–163 is supposed to be a different sort of roadworks, bringing growth that is ordered rather than chaotic, reducing social inequities rather than exacerbating them, preserving the Amazon rather than despoiling it.

Getting it right has now become a global project, involving NGOs, multinationals and grass-roots groups, as well as all levels of Brazil's government. There are plenty of disagreements, but this throng is forming unlikely alliances, overturning assumptions about how to police the forest and proposing novel ideas for reconciling growth and conservation.

The road was opened 30 years ago by dictators whose idea of manifest destiny was to send bulldozers to clear a trail into the forest and entice people to follow with the prospect of land and subsidies. “Land without people for people without land,” they urged, and many responded, settling along the margins of thoroughfares that took turns as dust and mud. One indigenous tribe, the Panará, was decimated by viruses brought by the settlers and expelled from its traditional territory. The BR-163 hosts what the transport ministry calls “the highest concentration of slave labour in the known world.”

Most governments since have promised to pave it. That the pledge may finally now be redeemed owes less to the demands of those living along the unpaved stretch, which lies mainly in Pará, than to the interests gathered at either end of the Cuiabá-Santarém road.

It starts in the capital city of Mato Grosso, a state that calls itself the “Amazon tiger”. While Brazil's economy shrank last year, Mato Grosso's GDP grew 8% thanks to a boom in soya, beef and other commodities. Such exports, notes Blairo Maggi, the state's governor, largely account for Brazil's trade surplus. This shields an indebted economy from chaos.

At the northern terminus, in the subdued port town of Santarém, stands a $20m grain terminal built by Cargill, an American trading company whose logo is now the town's most visible landmark. The terminal is handling grain delivered by river but will really come into its own when the BR-163 is ready for lorries bearing grain from Mato Grosso.

The payoff will be stunning. The farmers of Lucas do Rio Verde currently ship their production out through the congested ports of Santos and Paranaguá in Brazil's south-east. Paving the BR-163 would halve the time and cost of transport, reckons the town's mayor, Otaviano Olavo Pivetta. That would inject 37m *reais* ($12m) into the local economy, a gain that would be repeated across Brazil's central-western region. All Brazilian agriculture, which is already intimidating rivals abroad, will be more competitive.

Manufacturers in the duty-free zone of Manaus, who see the value of their tax breaks eaten away by the cost of delivering their fragile electronic goods via bumpy highways, expect freight costs to fall by 300m *reais*. The paving of the BR-163, which is to be a privately operated toll road, is a big part of the solution to Brazil's *apagão logística*—its logistical blackout—which threatens to choke off an economy that is just beginning to grow again. The road itself makes what looks like an irrefutable argument for an upgrade. In soya-growing Lucas, which lies along the paved stretch, municipal schools have semi-Olympic-sized swimming pools. Trairão, on the other hand, lacks not only asphalt but basic sanitation.

The cost of progress?

The road will transform as well as transport, but not necessarily for the better. The Amazon forest has already shrunk by 15% since the 1960s. In general, some 85% of deforestation takes place within 50km of a road, because a road makes it more profitable to fell trees, first for timber and then for pasture, the biggest contributor to the denuding of the forest. The paving of the BR-163, which passes through one of the Amazon's most varied bird habitats, will destroy 22,000-49,000 square kilometres of forest within 35 years, according to a report in 2002 by two research institutes, IPAM and the Instituto Socioambiental. Without law and order, the road could usher in

the strong and flush out the weak.

Trairão is a jangling ten hours by road from Santarém. Small farms and pasture line the verges of the highway, and lorries loaded with *ipé*, a tropical hardwood, ply it ceaselessly. The municipality has ranching on a small scale but Ademar Baú, a farmer who is also Trairão's mayor, sees great possibilities. The region is “very suitable” for cattle, he says, with lots of rain and no disease. Farmers are beginning to experiment with rice and soya.

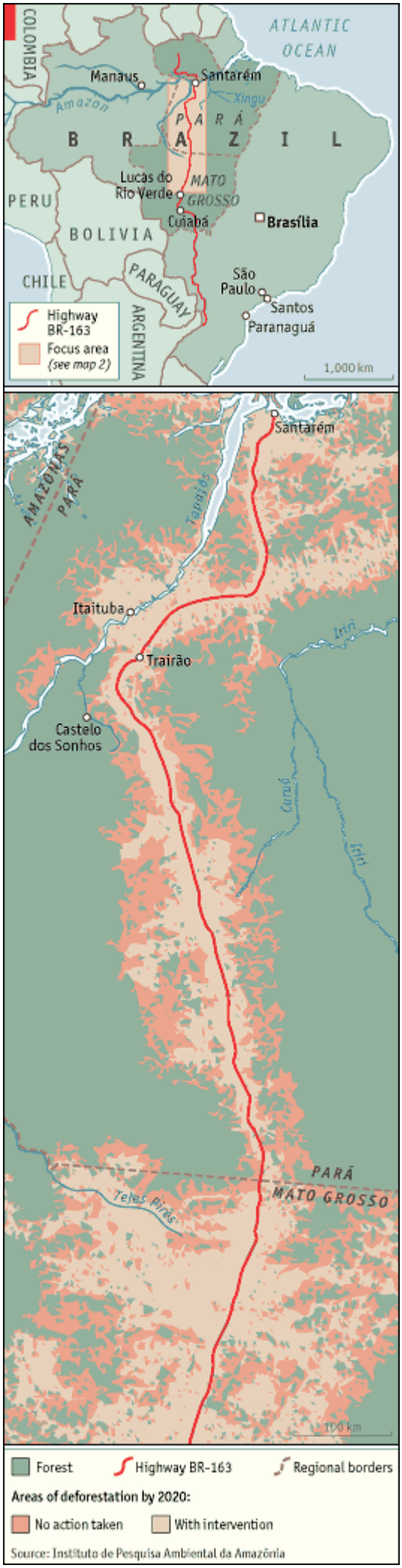
But the logging is clandestine, and the farming takes place in a legal limbo. Mr Baú says that 90% of the proprietors in Trairão have no clear title to their land. He blames this on “bureaucracy”, in particular the federal agrarian-reform agency, called INCRA. Because INCRA rarely sells land outright, and then usually in lots of 100 hectares, landowners acquire it through fronts, cannot borrow money from banks and cannot get official sanction for logging.

With the paving of the road in prospect, Trairão is experiencing a boom. Its population has swelled from 14,000 to 25,000 in the past two years. The price of land along the road has jumped nearly tenfold. So common are overlapping claims, says Mr Baú, that if all were valid Trairão would rise three storeys high.

Like much of Pará, Trairão is caught up in what may be the unruliest property market in the world. The federal government owns 70% of the state's land, through agencies such as INCRA, Indian reserves and national forests. Much of INCRA's property is federal in name only, and thus an invitation to *grilagem*, which refers to an earlier practice of putting land deeds in boxes of crickets to make them look authentically antique.

There are trappings of legitimacy. Enterprises apply to INCRA for documents called *protocolos*, based on parcels of land surveyed from the air and impressively “geo-referenced”. These are then sold to loggers, speculators or aspiring ranchers, sometimes via the internet. The *protocolo* concedes no right of ownership, yet is bought and sold as if it does. Sometimes it is enough to persuade earlier settlers to leave. If not, there can be violence. “When I arrive, the *ribeirinho* [river dweller] is there,” says a logger from Itaituba, a district along the BR-163. “He's been there 80 years. I have the document. That means a battle, sometimes to the death.”

Land clashes, an old story in southern Pará, rage along the BR-163. In Santarém, Cargill's terminal has opened up a new front in Brazil's soyabean boom. By night, planters recently arrived from Mato Grosso cruise the waterfront in shiny Hilux pickup trucks, a marker of rural prosperity. Often, the locals are happy to sell out to deep-pocketed buyers. Sometimes, alleges a local organisation of family farmers, they are pressured to leave. In Castelo dos Sonhos (“Castle of Dreams”), four out of five corpses in the cemetery are those of murdered members of the rural workers' union, says Socorro Pena of IPAM. Over 500 people have died in Pará's land wars.



Development and conservation

Brazil has grown up since the generals etched the BR-163 into the forest. No longer does the government think it sufficient to

build something and then abandon it. Now, 15 federal ministries are pondering every conceivable consequence of paving the road, from greater prostitution to opportunities for organic derivatives of castor oil. Social movements, which barely existed 30 years ago, are subjecting the project to intense public grilling. For them, government services, from policing to education, are as important as conservation.

The government envisages a two-phase process to soften the impact of the road (see map): first, “emergency actions” to accompany roadworks starting next year, such as beefing up law enforcement and settling property claims, and then an environmentally friendly master plan for the road's “area of influence”—nearly 1m square kilometres and 1.7m people. “The predatory paradigm of the past 500 years is being broken,” boasts Alexandre Gavriloff, the transport ministry's director of concessions.

A traveller cannot help but wonder whether government can break paradigms on its own. The Santarém branch of INCRA administers federal property spread across 17m hectares in 11 districts. Two vehicles are working properly and one is barely functioning, says the unit's chief, Pedro Aquino de Santana. Its employees are mostly too decrepit to travel; the youngest was hired 21 years ago. IBAMA, the federal issuer of environmental licences, is hardly in better shape. Flávio Montiel, its director of environmental protection, says that “IBAMA today doesn't have the means to supervise” but contends that things are improving. After seeing its budget for policing Brazil's forests slashed to a derisory 17m *reais* this year, it has received an emergency infusion of funds.

The government proposes to ride up the BR-163 like a no-nonsense sheriff on the American frontier, but a truer analogy would be to 19th-century Afghanistan, which drew outside powers and local potentates into a contest for influence. The players of this latter-day Great Game are an assortment of local and global pressure-groups, multinationals, foreign lenders and various levels of government with diverse interests. Yet they have mounted a challenge to the traditional approach to managing the forest, which relies on enforcement, not inducement. “The government is not set up to be able to manage the Amazon,” says Michael Jenkins of the Katoomba Group, which marshals private-sector incentives for green ends. Alliances between environmentalists and enterprises can help, he thinks. That means “folks traditionally seen as arch enemies need to be in the same room with us.”

No enemy is more arch than Mr Maggi, who, besides being Mato Grosso's governor, is part-owner of the world's biggest soya producer. Anything that is good for soya is bad for Brazil, many Brazilians believe. It contributes to deforestation, usually indirectly, by occupying pasture and pushing ranchers deeper into the forest; it poisons rivers with pesticides. Soya planters amass land but employ few people. During the year in which Mr Maggi took office, Mato Grosso's rate of deforestation more than doubled. No coincidence, his critics said.

Mr Maggi is certainly no tree hugger. Asked about the effects of growth on the environment, he replies that “you don't make an omelette without breaking eggs.” He opposes new reserves for indigenous people, who, so far, have been the forest's most reliable protectors. Yet Mr Maggi vows to defend the law, which in Brazil is strict: 80% of densely forested private land may not be cleared, nor may the banks of rivers. As the Amazon links its economy to that of the rest of the world, the cost of flouting the law is mounting.

The Maggis' company, Grupo André Maggi, is the best example. Its European customers, tutored by pressure-groups, are nervous about the fate of the forest, and its bankers are becoming so. The Maggi company wants to borrow $30m from the International Finance Corporation (IFC), an arm of the World Bank that imposes relatively strict green norms on its clients. It is also a client of Banco Real, owned by a Dutch Bank called ABN-AMRO, one of several summoned by NGOs last November to be warned against financing tree-toppling soya. The IFC named a mediator between the Maggi company and the NGOs. With their encouragement, it obeys the law and insists that the 500 other farmers from which it buys soya do so as well.

NGOs are putting similar pressure on Maggi's competitors: the Nature Conservancy is tackling Cargill, for example. The ultimate aim is a system of certification, assuring consumers in the first world that soya growers are complying with environmental law. It is harder—and more important—to extend that idea to the frontier, where anonymous ranchers are doing most of the deforesting, but there is progress here, too. Brascan, a Canadian-owned company, may soon start up ranching in the Amazon; Maggi-like, it will lend cattle to other ranchers provided they obey the law.

Private schemes underpin public policies that are themselves in flux. Pretty much everyone in the Amazon regards as irrational the decree limiting deforestation to 20% of a proprietor's land (50% in less-

dense forest, insists Mato Grosso). It does not give priority to the most environmentally valuable land. It forces farmers to pay for extra land, which discourages them from protecting it.

The main contender to replace legal reserves is “economic and ecological zoning”, which proposes a tactical retreat in the battle against deforestation in order to win it. The government of Pará recently proposed a master plan that blesses deforestation that has occurred so far but raises from 33% to 62% the share of territory off-limits to any but forest-friendly development. For the BR-163, it envisages a strip of development 40km wide on each side of the road, but this would go no farther. The plan accommodates the idea—put forward by social movements—of reserving a mosaic the size of Maine for sustainable use and pure conservation east of the road. This is a surprise coming from a government seen as no friendlier to the forest than Mato Grosso's. Rather than punish people for chopping down trees, the idea is to lure them to “zones of consolidation”, where the damage has already been done.

Mind the gap

Visions of the Amazon are converging, yet stop short of consensus. The green-minded federal environment ministry would consider modifying the system of legal reserves, but only after deforestation is brought under control. As for the land along the BR-163, “it is not in the interest of the government to open [new] areas” to development, says João Paulo Capobianco, secretary of forests and biodiversity. But the choice between growth and conservation is a hard one. At the close of an interview, Gabriel Guerreiro, Pará's environment secretary, unexpectedly invites a visitor to tap his teeth: they are false. His teeth fell out when he was an impoverished 15-year-old growing up in the forest. “I don't accept being condemned to poverty,” he says.

The path towards a benignly blacktopped BR-163 is as rough as the road itself. Some worry that the quest for governance will be steamrollered in the rush to pave it. Mr Maggi—fearing that sceptics will block the project indefinitely—now lobbies for a southbound rail line as an alternative. The miracle would be a road that promoted Brazil's growth while protecting the indispensable Amazon.

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Canada's new cabinet

A balancing act

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From The Economist print edition

Paul Martin reshapes his team

CRAFTING a cabinet is always a particularly delicate balancing act for Canadian prime ministers. Regional, ethnic and gender considerations often prevail over aptitude and expertise. The challenge is that much greater for the rare prime minister who finds himself heading a minority government, as Paul Martin now does after a scolding from voters last month. Not only is the pool of potential candidates reduced, but with a sceptical electorate to impress and not much time to do it—minority governments in Canada are lucky to last two years—the opportunities for fine-tuning later are few.

Mr Martin's new cabinet, named on July 20th, includes much of his old one, assembled when he took over the party leadership and the prime minister's office from Jean Chrétien last December. Its bulwarks are still the deputy prime minister, Anne McLellan, and the finance minister, Ralph Goodale, both staunch—if dull—loyalists .

But Mr Martin, whose desire to please everyone has often rendered him a ditherer, also made several bold moves—while ensuring that all the regions (though not women) were well represented. Chief among these was the appointment of Ujjal Dosanjh as health minister. Reforming the faltering state-funded health-care system is probably the most pressing problem facing the Martin government. It is also one which will have to be negotiated with the ten provinces. Mr Dosanjh is a neophyte Liberal MP but was once the premier of British Columbia under the banner of the left-leaning New Democratic Party, whose 19 federal MPs Mr Martin will frequently need to pass legislation.

Mr Martin also made overtures to moderate Conservatives by naming a defector from their ranks to the influential post of public-works minister. Scott Brison quit the Tories after they merged last autumn with the western-based, socially conservative Canadian Alliance party.

Mr Brison's appointment is also intended to send another signal. The feeble showing by the Liberals in the June elections was attributable in large part to public outrage over a scandal in which hugely padded contracts were handed out by the public-works department to Liberal-friendly advertising firms in Quebec. The naming of a former Tory to head the ministry is meant to show that the department will no longer be used for doling out largesse to Liberal faithful.

Mr Martin also hopes to mend fences within his own party by bringing back Stéphane Dion, a Chrétien loyalist formerly in charge of intergovernmental affairs as environment minister. The new intergovernmental affairs minister is Lucienne Robillard, also a Quebecker but a less fervent federalist, an indication that Mr Martin is intent on a more accommodating relationship than his predecessor with the provinces, especially Quebec.

One victim of the reshuffle was Bill Graham, transferred from foreign affairs, where he was thought by many Canadians to be doing an exemplary job, to the ill-fitting defence ministry. Some explained the move by saying Mr Graham was out of step with Mr Martin on whether Canada should co-operate with the United States on a controversial plan for missile defences; others suggested Mr Martin simply wanted to give the plum foreign-affairs job—which went to Pierre Pettigrew—to a Quebecker.

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Bolivia's energy referendum

Mesa's middle ground

Jul 22nd 2004 | LA PAZ
From The Economist print edition

Five answers, but the future of the energy sector is still in question

Get article background

IN A referendum on July 18th, more Bolivian voters answered yes than no to five convoluted questions which, taken together, empower the government to exert greater control over the export and sale of the country's vast oil and gas wealth. Since this falls short of returning the industry to state ownership, the vote is being seen as something of a victory for foreign investors and a defeat for those who want to reverse the privatisation of the oil and gas industry, which took place in the 1990s.

In fact, it is by no means clear what consequences the ballot will have. The only clear point is that by persuading more than half of the electorate to turn out to vote, Carlos Mesa, who has been Bolivia's president only since October, has demonstrated his own political popularity. He can also take satisfaction in the absence of any major violent incidents. Before the poll, opponents of the referendum had threatened to disrupt the voting through intimidation and arson. There were even rumours of a coup. In the event, the government deployed the army on the streets, and the vote took place peacefully.

But what, apart from shoring up the position of Mr Mesa, does the voters' answer to the five artful questions mean? The questions were worded to avoid alienating the gas nationalists but also to avoid a self-defeating and costly renationalisation. However, some pro-nationalisation campaigners are already claiming that the results oblige Mr Mesa to end foreign ownership of oil and gas assets. This cause has long drawn strength from widespread distrust of the privately managed oil sector. Indeed, the popular rising that inadvertently swept Mr Mesa to power last October was led by radicals who wanted to renationalise the oil and gas industries.

With a strengthened mandate that should see him through to the end of his term in 2007, Mr Mesa will probably continue to strive for a middle way. A new oil law is expected to be sent to Congress by August 6th. It will contain proposals to raise taxes on oil companies and renegotiate contracts. In exchange, the president has promised to open new gas markets. On July 22nd he was due to meet Argentina's president, Néstor Kirchner, to begin talks on long-term gas exports to that country, a deal that was unthinkable just a few weeks ago. He also plans to re-open talks on exporting gas via Peru to the United States and Mexico. The combined value of these exports could top $1 billion annually by 2007, according to official estimates.

One country deliberately left out of this equation is Chile. One of the five questions on the ballot asked whether voters agreed with the president's policy of using gas as a strategic resource “to recover sovereign and viable access to the sea”. Bolivia lost its Pacific coastline to Chile in a war in the 19th century. The president says he is working with Chile, but that it is currently “closed” as an option for gas exports.

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Singapore

The son rises

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Strange how the new Mr Lee looks remarkably like the old one

IN A recent speech to fellow graduates of Harvard University, Lee Hsien Loong, Singapore's deputy prime minister, explained that his country was at a “major transition point”. He was referring, he went on to explain, not just to his own promotion to prime minister, which was this week scheduled for August 12th, but also to the economic and social reforms the government has planned. “We are prepared”, he said, “to take the plunge.”

Yet Mr Lee hardly seems the plunging type. He is the son of Singapore' s founding father, Lee Kuan Yew, and shares his father's measured, practical and technocratic approach to government. He also shares a somewhat condescending, didactic bent, and a tendency to chide and admonish rather than charm and encourage. His speeches brim with grim economic prognoses and stern injunctions to Singaporeans to tighten their belts. After a 14-year interval under the affable Goh Chok Tong, most Singaporeans will find the reversion of leadership to the Lee dynasty more like a cold shower than an exhilarating leap into the unknown.

Mr Lee senior, now 80 years old, still sits in the cabinet (as senior minister, rather than prime minister), and supervises the Government Investment Corporation (GIC), which manages Singapore's foreign reserves. Meanwhile, Mr Lee junior's wife, Ho Ching, runs Temasek, a government holding company that owns stakes in Singapore's biggest firms, while his brother, Lee Hsien Yang, runs Singapore Telecommunications, the biggest local firm of all.

Fans of the family argue that this concentration of power stems simply from its members' remarkable talent, not their connections. They claim the younger Mr Lee's rapid ascent through the ranks of the army to become a brigadier-general by the age of 32 rested purely on merit, as did his promotion to the post of deputy prime minister after only six years in politics.

The prime-minister-to-be certainly projects great intelligence and determination. He has survived a bout of cancer and stoically endured the death of his first wife. While in the army, he directed the dramatic rescue of passengers stranded in a disabled cable car. As finance minister, he has presided over a much-needed and much-delayed liberalisation of the financial sector. His father says that he would already be prime minister were it not for misplaced concerns about nepotism.

But many Singaporeans assume that Mr Lee *père* struck a deal with Mr Goh, engineering his rise to power in exchange for a promise that he would eventually give way to Mr Lee *fils*. At any rate, Mr Goh made the younger Mr Lee his deputy from the moment he succeeded the elder Mr Lee as prime minister, in 1990. The new man has never had any rivals. The members of the ruling People's Action Party (PAP), which controls all but two seats in parliament, selected him unanimously as prime minister, as did the party's executive committee and the cabinet.

The new Mr Lee appears to see nothing wrong with this sort of arrangement. He fiercely defends the PAP's more underhand election tactics, such as threatening to put districts that vote for the opposition at the bottom of the list for public spending. He claims to want a more vigorous public debate, but promises to “demolish” any critic who undermines the government's standing. The threat is real: in recent years, one opposition figure found himself bankrupt after losing a defamation suit, while another wound up in jail.

As an example of how the government is prepared to open up, B.G. Lee (as he is often known, thanks to his spell as a brigadier-general) cites a recent relaxation of restrictions on busking and bungee jumping. He also points out that it will soon be easier to register a society, although the government stopped short of doing away with the registration process altogether. The authorities are not yet ready to allow Singaporeans complete freedom to chew gum either: they have lifted a ban on imports, but only of the sugar-free sort, only to be sold in pharmacies and only to purchasers who register with the pharmacist first. By the same token, the government has signalled a more liberal attitude to homosexuality—but only after researchers found that cities with high concentrations of gay residents tend also to be centres of innovation.

On the economic front, too, the government's planned reforms are less than revolutionary. Mr Lee's instincts are laisser-faire for the most part. As finance minister and head of the central bank, he has cut taxes and liberalised the pension system, in addition to opening the banking sector to foreign competition. The government is also pursuing free-trade agreements with as many countries as possible.

At the same time, however, it refuses to abandon the idea that it is the job of the government to champion particular industries. Currently, it is pushing investment in education and biotechnology, just as it once promoted electronics and petrochemicals. Nor has it followed through on talk of reducing government meddling in the economy, through outfits like Temasek and the GIC. In short, Mr Lee seems to be sticking to Singapore's special blend of *dirigisme* and free markets.

Such policies, of course, helped propel Singapore from third world to first in a generation. The economy is still going strong: in the second quarter, it posted growth of almost 12%, albeit compared with a low base during the same period last year, when the region was hit by an outbreak of the SARS respiratory disease. Indeed, Mr Goh delayed standing down until the economy was faring better. For all his talk of reform, Mr Lee is far too pragmatic to fix something that is not broken.

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China

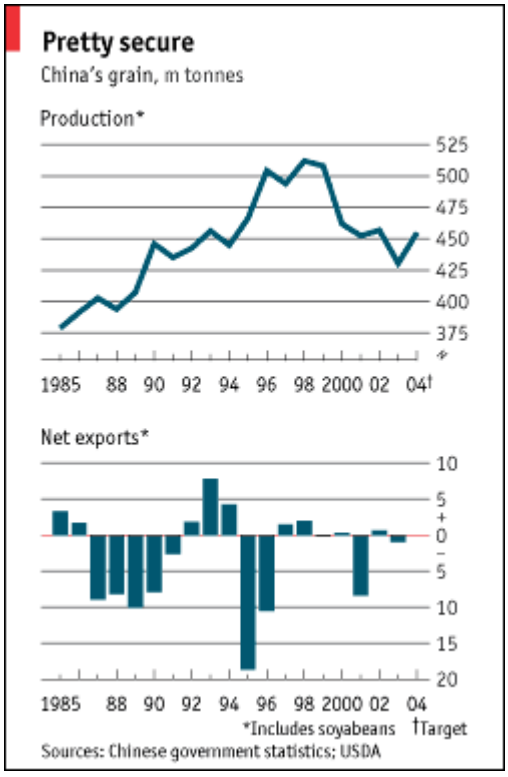
Eating disorders

Jul 22nd 2004 | BEIJING
From The Economist print edition

Odd fears about grain supplies

THIS year, China is predicting a significant reversal of a recent decline in its grain production, and officials say grain reserves are ample. Good news, one might think. Yet, on a visit to a farm earlier this year, the country's prime minister, Wen Jiabao, called for more grain output and warned the assembled peasants that grain security was a matter concerning the nation's livelihood and social stability. Why all the fuss?

China has not suffered famine for 40 years. It is more or less self-sufficient in grain, rice being the biggest component, along with large quantities of wheat and maize. Its huge foreign-exchange reserves, which top $470 billion, make it readily able to import any shortfall. But a surge in domestic grain prices since last October has revived atavistic fears among Chinese leaders that if attention to grain production slips, then inflation, chaos and hunger will follow sooner or later.



Maintaining self-sufficiency in such land-intensive commodities as grains makes questionable economic sense in a country that has relatively little arable land and, in the northern wheat-growing areas, little water to spare. Yet China's policy has long been to keep imports to no more than 5% of consumption. Wariness of the international grain market is one reason for this. China is also concerned that the main grain-exporting nations happen to be America and its friends.

Last year's price increases were triggered by poor crops and a rundown of government grain reserves. Prolonged low prices had prompted many farmers to turn to more profitable crops or join the job-seeking exodus from countryside to city. The price upsurge was the main contributor to a revival of consumer-price inflation, which reached 5% last month, the highest level for more than seven years.

In the past few months, a jittery government has sought to revive peasants' enthusiasm for grain by offering them direct subsidies. Floor prices have been established for the purchase of crops. Stricter controls have been imposed on the appropriation of arable land for urban development. Agricultural taxes are to be phased out over a five-year period.

Some of these steps look like a return to greater government intervention in the grain market. But despite the frequent intonation of terms such as “grain security” and “self-sufficiency” (for a Communist Party of peasant origin, these have a pleasant ring), there are signs that the government is moving towards greater acceptance of the role of the market in regulating grain supplies and prices. In June, China announced measures aimed at introducing more competition in the procurement and marketing system, hitherto dominated by state-owned enterprises. Michael Goettl of China Food and Agricultural Services, a Beijing-based consultancy, says that in recent months officials have shown greater flexibility in their definition of self-sufficiency. Some now suggest imports could rise to 10% of consumption.

Thanks mainly to the stimulus of surging prices, this year's harvest is expected to bounce back to around 455m tonnes, about the level of two years ago. The prospect of a better harvest this year appears to be

helping to curb the growth of grain prices. Figures released this week showed they rose 32.0% year on year in June, compared with 32.3% in May and 33.9% in April. Officials say overall consumer-price inflation is also easing.

The harvest will still be well short of the historic high of 512m tonnes in 1998. A senior official predicted last weekend that China would need another 37.5m tonnes to meet this year's demand. Part of this will come from reserves, but Mr Goettl says that imports of wheat are likely to rise to 8m-10m tonnes this year, compared with 1m tonnes in 2003. If China seeks to maintain a high degree of self-sufficiency, it will have to increase yields considerably to meet the demands of a growing population. But yields are low compared with those in developed countries, suggesting there is ample room for growth.

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America and Japan

Villain or victim?

Jul 22nd 2004 | TOKYO
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The Japanese want America to be gentle with Charles Jenkins

Reuters

Out of Pyongyang

IT WAS a gripping scene, with Charles Jenkins cast in his toughest role yet: frail husband and father of an unlucky family, whose future happiness is threatened by a cold and merciless superpower. On July 18th, with news cameras rolling at Tokyo's Haneda airport, Mr Jenkins—an American army sergeant who disappeared into North Korea in 1965—emerged from a chartered aeroplane with his two North Korean-born daughters and his Japanese wife, Hitomi Soga. Leaning on a cane, the 64-year-old Mr Jenkins looked much weaker than the American officers he portrayed in North Korean propaganda films. Japanese opinion is convinced that there can be only one proper ending to this drama: America must abandon its plans to prosecute Mr Jenkins for desertion and other alleged crimes, so that Ms Soga and her family can live happily ever after.

Ms Soga is a sympathetic figure. As a young woman, she was abducted in 1978 by North Korean agents and whisked off to the hermit kingdom, where she married Mr Jenkins, had two children, and lived in captivity for 24 years. Although Japan had accused North Korea of committing a string of such kidnappings, Kim Jong Il's regime did not admit to it until 2002, when Junichiro Koizumi, Japan's prime minister, made a trip to Pyongyang. During the visit, Mr Kim admitted that North Korea had abducted 13 Japanese citizens during the cold war. He said eight had died, but allowed the other five—Ms Soga and two couples who married in captivity—to return home shortly after Mr Koizumi's visit.

Since Mr Kim's admission, the fate of the abductees and their families has been one of Japan's most emotional political issues. Pressure groups want North Korea to provide details about the deaths of the eight other abductees, plus two more Japanese citizens whom North Korea does not admit to kidnapping. All five of the survivors, moreover, had children born in captivity, and had to leave them in North Korea when they returned to Japan in 2002. So in May, Mr Koizumi returned to Pyongyang. He won a bounce in his poll numbers by promising North Korea food aid, in exchange for which Mr Kim allowed the children of the two Japanese couples to join their parents in Japan. Their release, however, focused the public's attention even more intently on the family of Ms Soga, whose husband and two daughters stayed behind in North Korea.

Mr Jenkins was unwilling to join his wife in Japan, for fear of being handed over to the Americans, who claim jurisdiction over him through their military treaty with Japan. He and his daughters finally left North Korea on July 9th, to meet Ms Soga in Indonesia, which has no extradition treaty with the United States. Mr Jenkins then agreed to come to Japan when it became clear that America would, at least temporarily, delay asking for custody on humanitarian grounds. Mr Jenkins, who is in poor health, is now getting medical treatment at a Tokyo hospital.

Mr Koizumi and other Japanese officials have appealed to the American government for leniency. A spokesman for George Bush said this week that America will ask for jurisdiction “at the appropriate time”. At some point, say American officials, Mr Jenkins will have to sit down and have a chat about his alleged crimes, which they insist are serious. Besides desertion—a charge Mr Jenkins's relatives in North Carolina say is unfair, claiming that he was abducted—he also stands accused of aiding the enemy and encouraging other soldiers to desert. Japanese officials say America's ambassador to Japan, Howard Baker, has suggested that some sort of plea bargain might resolve the impasse—though, in Washington, other American officials take a harder line. If a deal can be worked out, Japan's public might yet see the

happy ending they want.

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Australia

U-turn

Jul 22nd 2004 | SYDNEY
From The Economist print edition

Australia is softening its controversial immigration policy

Get article background

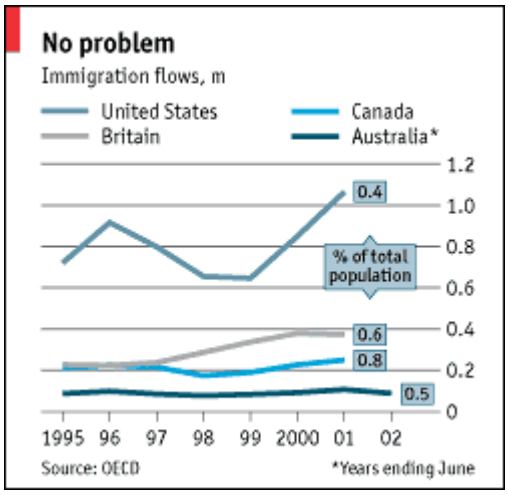
THREE years ago, in what is likely to remain a symbol of his prime ministership, John Howard ordered armed troops to ward off the *Tampa*, a Norwegian cargo vessel that had rescued 438 mainly Afghan asylum-seekers from the sea off western Australia. He declared that none would ever set foot in Australia and consigned them to what he described as a "Pacific solution": Australian-built, high-security camps on the islands of Nauru and Papua New Guinea. The *Tampa* affair, followed by the terrorist attacks on America in September 2001, helped Mr Howard win his third election a few months later.

So it came as a surprise on July 13th when Amanda Vanstone, the minister for immigration, announced a softening of policy. She said that most temporary visa holders, 9,500 people, would be eligible to stay in Australia permanently. "Temporary protection visas" have normally allowed those deemed refugees to stay only three years, after which they have to leave to apply for permanent residency.

Once again, politics at home seems to have driven the change. Mr Howard faces another tight election, this time in a climate in which, says Greg Barns of "A Just Australia", a refugee-advocacy group, the "fear campaign whipped up last time no longer has resonance." Television images of incarcerated asylum-seekers rioting and throwing themselves on barbed wire at outback detention camps have disturbed Australians. Some 2,000 or so children have been held in the camps, most for more than two years, even though nearly all (and 98% of the Iraqi children) have been recognised eventually as genuine refugees.

A report in May by Australia's human-rights and equal-opportunities commission concluded that Australia's treatment of child detainees had breached its obligations under the UN Convention on the Rights of the Child. The government recently released all bar one boat child from mainland detention camps, though 19 remain on Nauru.

Yet the strongest reason for the policy change has probably been the discovery that asylum-seekers—even those Mr Howard and his ministers described three years ago as "queue-jumpers" and "possible terrorists"—can be good for the economy. Australia, after all, has only a small annual intake of immigrants, even expressed as a proportion of total population (see chart). Many of those with temporary visas have found jobs as fruit pickers and slaughterhouse workers, helping to keep several towns alive. Parliamentarians in Mr Howard's conservative coalition, apparently scenting a shift in public opinion, have lobbied for change. With an election due in October, their sense of smell needs to be acute: two opinion polls on July 20th showed the opposition Labor Party ahead of the government by up to four points.



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Afghanistan

A little good news

Jul 22nd 2004 | GARDEZ
From The Economist print edition

Confounding the doomsters

Get article background

AP

Ready for the big day

BY REGISTERING in their millions to vote in their country's first free elections, Afghans may just have salvaged the credibility of what many feared was a doomed enterprise. The introduction of democracy has had to contend with terrifying security and logistical problems, the threat of murderous power struggles between warlords, worries about intimidation, and attacks on government and election officials. Some observers believe that holding parliamentary elections so soon after the toppling of the Taliban will reinforce the grip of armed factions now rich with narco-dollars. Others claim the timetable has more to do with elections in the United States than with Afghanistan's needs. Until recently, Kabul was rife with predictions that the elections would have to be called off.

This month, however, the prospects for successful polls have brightened. After weeks of indecision, it was decided last week to split the presidential and parliamentary elections. Now the former vote will be held on October 9th. The parliamentary elections, considered the more perilous as the factions are expected to compete for power in earnest then, will be put off until next spring. Potentially, that will give the current interim president, Hamid Karzai, who is expected to win handsomely the legitimacy he now lacks, several months to clean politics up.

The biggest reason for optimism, though, is success in registering Afghanistan's estimated 9.5m voters, a Herculean task in a war-ravaged land where no proper census has ever been attempted. Registration got off to a slow start. The UN, whose international staff is assisting, complained of a lack of funds. Potential voters were more interested in disarmament and the economy. The process was dogged by claims of multiple registration, and allegations that people were signing up only because they expected payment.

But in the last few weeks there has been a rush of enthusiasm. Peak days have seen as many as 130,000 registrations; a recent poll found that 77% of Afghans believe the elections will make a difference. It looks as if by the deadline on July 31st some 7.5m people will have registered, well above the informal target of 60%.

In traditional Pushtun villages around the town of Gardez, women were queuing up to register this week, hopeful that they can elect candidates who will build clinics and schools. Most important, they were praying that elections might bring to an end years of violence. Yet the threat of attack is never far away. Tribal gunmen with AK-47s were standing guard at the women's registration offices against Taliban and criminals seeking to undermine the government. It takes courage to be part of democracy in Afghanistan.

A couple of hours' drive towards the Pakistan border from Gardez, in areas where it is too dangerous for the UN staff to go, ex-South African soldiers from Global Security, a private company, will run the election. Beyond that are pockets of territory which are just too dangerous for anybody. In Gardez, it is all working out better than expected, but across the deeply conservative Pushtun south around Kandahar, where only about 20% of women have registered, there are real worries that Afghanistan's biggest ethnic group will be under-represented in the election, and may not accept its outcome. But an election, it now seems, there will indeed be.

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Turkmenistan

Brain dead

Jul 22nd 2004
From The Economist print edition

A catastrophic education policy

IF YOU are a poor country in Central Asia, why sack your best-educated people? Earlier this year, the authorities in Turkmenistan said that they would do just that. From June, degrees obtained abroad since 1993 would not be recognised. Some of the graduates received letters warning them of their imminent dismissal. This threatens to damage schools, ministries and hospitals in a country already weakened by a decade of misbegotten educational “reform”.

Turkmenistan inherited a solid Soviet education system, but chose after independence in 1991 to switch from the Cyrillic to the Latin alphabet and to sideline Russian as the language of instruction in favour of Turkmen. Sadly, the authorities neglected to publish many new textbooks.

Basic education has been reduced to nine years, and university from four years to two. From September to November, students are usually sent to cotton fields for the harvest. The number of students in higher education has dropped from 40,000 at independence to 7,000 or so today. Those who can afford it go to study in Moscow or other former communist capitals, perpetuating a tradition from Soviet times. Over 12,000 teachers were fired a few years ago, and those who have kept their jobs are paid badly, if at all. Classes are overcrowded, and grades as well as admission are often for sale.

The curriculum has been increasingly geared towards vocational skills—subjects deemed useless such as physical education and arts were eliminated—and political indoctrination. A substantial part of school time is now dedicated to learning passages from the “Rukhnama” (Book of the Soul), in which President Saparmurat Niyazov rambles on about practically everything, from proper social behaviour and morals to the motherland and its glorious leader. The book and its author have acquired quasi-religious status.

As a result, the education level has collapsed. With over 45% of the population under 19 years old, general knowledge and critical thinking—let alone vaguely accurate views of the outside world—are vanishing rapidly. According to the Turkmenistan Helsinki Initiative, a human-rights organisation based in Vienna, a growing number of universities in Russia and other CIS countries have begun turning down students from Turkmenistan over the past few years, citing their lack of basic knowledge.

So far, the decision on foreign degrees appears not to have been put into force. One thing is certain though: students will receive a new textbook very soon. Mr Niyazov has just announced that the second volume of “Rukhnama” will be published in September.

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Palestine and Israel

Yasser Arafat survives, for now

Jul 22nd 2004 | GAZA AND TEL AVIV
From The Economist print edition

AFP

A new Palestinian leadership is keener than ever to take over, but it is not yet clear who might emerge at its head

RECENT violent Palestinian protests in the Gaza strip against the leadership of Yasser Arafat were the most serious home-grown challenge to his rule, certainly since Israel and the United States declared him *persona non grata* as a negotiating partner in the seemingly endless search for a lasting peace between Israelis and Palestinians. Once again, however, Mr Arafat, now 74, seems to have survived the assault. But the challengers have been emboldened. The end of his reign may not yet be in sight. But, amid growing political turbulence among both Palestinians and Israelis, his grip is surely weakening.

The Israeli government is delighted by Mr Arafat's discomfiture. The internecine violence in Gaza, it hopes, heralds the collapse of the old Palestinian regime and the emergence of a new, more moderate and malleable Palestinian leadership. Israel's prime minister, Ariel Sharon, says that recent events show that his plan to withdraw from Gaza (and a handful of West Bank settlements) is already—just as he intended—creating a new Palestinian reality.

Most Palestinians acknowledge that their national movement is in crisis. The latest bout of internal strife began on July 16th when Palestinians belonging to a militia affiliated to Mr Arafat's Fatah group, the core of the Palestinian Liberation Organisation, abducted four French aid workers and two Palestinian police commanders who answer to the Palestinian Authority (PA), of which Mr Arafat is president. The kidnappers said they would not give back their captives unless Mr Arafat tackled corruption in the PA, among other means by sacking the old guard of police officials entrusted with overseeing law and order in Gaza after Mr Arafat came back from exile in 1994.

Mr Arafat, who has been holed up for the past two years in a half-destroyed compound in Ramallah on the West Bank, agreed. He fired the abducted officers and met a long-standing demand by various involved outsiders that he should consolidate the PA's 12 security forces into three. But then, in an act of defiance, he declared that those forces would answer not to his frustrated prime minister, Ahmed Qurei (also known as Abu Alaa), but to himself. And he said they would be commanded by members of his loyal old guard, headed by a relative—not by young officers untainted by allegations of corruption.

For Mr Qurei, that was a snub too far. He submitted his resignation. Other Palestinians then reacted

violently. In the Gaza strip, Fatah militiamen and dissident Fatah security men took to the streets, torching one police station and bulldozing the walls of another. Mr Arafat declared a state of emergency, marshalling his men around PA institutions to ward off a coup.

If Fatah continues to implode, so will the PA. That would destroy the last semblance of Palestinian self-government in the territories that have been occupied by Israel since the war of 1967.

The strife within Fatah has a geographical as well as generational aspect. In Gaza, the militants of Hamas (the Islamic Resistance Movement), who, unlike Mr Arafat and Fatah, do not recognise Israel's right to exist, have long matched or overtaken Fatah in popularity. And inside Fatah there are deep divisions over how to respond to Israel's proposed withdrawal from Gaza.

Still, it is unclear why Mr Arafat appears to have deliberately fanned the flames of dissent among Palestinians by refusing to get rid of his old-guard officials. Most likely, he viewed the abductions as the first moves in a conspiracy to unseat him. He has fingered his former security chief in the Gaza strip, 42-year-old Muhammad Dahlan, as the main conspirator.

Another big daddy, please

Mr Dahlan denies wanting to oust Mr Arafat; it is the corrupt people around the old man who, he says, should be dumped. But in recent months Mr Dahlan has encouraged elections within Fatah in Gaza, most of which have seen candidates loyal to him defeat those still backing Mr Arafat. Through the offices of his former security force, Mr Dahlan has cultivated young Palestinians; many have been organising the dissident militias. In May, hundreds of them were knocked off the PA's payroll—ironically because of international demands for reforms in the finance ministry. These angry young men, says a Palestinian analyst, are “looking for new fathers”.

Young, well-dressed and energetic, a fluent Hebrew speaker from his time in Israeli prisons, Mr Dahlan is a wily operator. The Israelis savour his apparent enmity to Mr Arafat. The younger man is readier to say things that Israelis like to hear—for instance, acknowledging that they will never accept the return of Palestinian refugees to their original homes, since the demographic change that would ensue would lead to the end of a Jewish state.

Unlike Mr Arafat, Mr Dahlan unambiguously welcomes Israel's proposed withdrawal, arguing that it offers a chance for Palestinians to show they can govern themselves if Israel goes. He also fears that an unreformed PA will be unable to counter the rising popularity of Hamas, which may want to continue attacking Israel even after a Gaza withdrawal.

Mr Arafat, on the other hand, sees withdrawal as a trap: Israel would offload the burden of Gaza while tightening its hold on the West Bank. Before agreeing to negotiate over Gaza, he wants assurances from Israel and from international parties that the withdrawal from Gaza will not end there. So far all he has is a letter from George Bush to Mr Qurei referring to “further West Bank withdrawals”.

Too well liked by the Israelis

Mr Arafat's supporters say Mr Dahlan is making a treacherous power grab, egged on by “foreign elements”. Indeed, most Palestinians think Mr Dahlan's biggest defect is that he is the favoured candidate of outsiders—the Americans, the Europeans, the Egyptians and, worst of all, the Israelis, who would like him to become the strongman of Gaza when they leave the strip. And many Palestinians who are fed up with Mr Arafat are also wary of Mr Dahlan. In particular, they worry that his methods—such as encouraging supporters to storm police stations and fire on opponents—smack of the same old-guard approach he says he wants to end.

For many Palestinians, the best way to reform the PA and to rejuvenate the Palestinian movement would be fresh elections. The last ones were held in 1996, when Mr Arafat was overwhelmingly elected as president and his Fatah party proved easily the most popular. But things have changed hugely since then. Many Palestinians now look neither to Mr Arafat nor to Mr Dahlan but instead to Fatah's general secretary, the 45-year-old Marwan Barghouti, who was sentenced in June to five life sentences for complicity in the murder of Israelis. He would probably have the best chance of sorting out both Fatah and the PA—and of engaging in negotiations for a lasting peace with Israel.

While the current Palestinian *intifada* continues and Israel closes off whole communities, elections would be very hard to hold. Besides, neither Israel nor the Americans are keen to risk the possibility that the Palestinians might again endorse Mr Arafat as leader or, worse, give Hamas so large a chunk of the vote that it might have to be part of a future Palestinian government. Instead, they want Mr Arafat to yield more powers to a prime minister who would then run a revamped security force under the watchful eyes of foreign supervisors.

Meanwhile, the old man, from his battered redoubt in Ramallah, will bide his time as usual. He has been sorely buffeted. But, as long as the Israelis heed America's entreaties that he should be neither expelled into exile nor assassinated, he cannot be discounted, even, once more, as a future negotiator.

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Iraq

Trying to balance the factions

Jul 22nd 2004 | BAGHDAD
From The Economist print edition

The new government is trying to co-opt some fiery militias. At what price?

Get article background

Reuters

THE gypsies across the Diyala Bridge south of Baghdad have much to fear from the turbulent Shia cleric, Muqtada al-Sadr. Their homestead is one of the few his militiamen have yet to smite. Elsewhere in Baghdad and in southern Iraq, their raiding parties with pickaxes have routed gypsy families by the hundreds, stolen their cars and cash savings in the name of the Shia's religious authority, the Hawza, and reduced their homes to rubble. His Shia God-squads have grabbed their girls and shaven their heads. Families who relied on their dancing daughters for their livelihood have fallen into penury.

Some in the new Iraqi government argue that such raids against “vice” are at least a helpful diversion of energies. In April and May, Mr Sadr led a Shia revolt that briefly held sway across Iraq's eight southern provinces, pinned down American forces in nightly street battles, and threatened to drag Iraq's Shia majority, which had initially welcomed the American invasion, into a full-fledged rebellion.

But a series of truces agreed on last month, encompassing Mr Sadr's stronghold in al-Thoura, Baghdad's eastern slum, as well as the Shia holy cities and other towns further south, are still holding. His own home turf in the capital has been more peaceful than it has been for months. Former fighters are now being paid to collect rubbish, plant trees, direct traffic and help the Iraqi police. The new government has promised to pay for a new sewage system so that the slum detritus will no longer flow past Baghdad's grimmest tenements.

Outside the city, the clergy behind Mr Sadr have calmed down. They cautiously welcomed the formal handover of power from Americans to Iraqis, and offered to put their militia, the Mahdi Army, at the services of the police against the insurgents. A pro-Sadr splinter group even declared its readiness to hunt down America's biggest bugbear, Abu Musab Zarqawi, a Jordanian *jihadi* who has been blamed for the latest spate of suicide-bombs.

Quid pro quo

This week, Mr Sadr got his reward. Iyad Allawi, the prime minister, lifted a ban on his paper, *al-Hawza*, which the country's departed American proconsul, Paul Bremer, had imposed in March. An official said Mr Allawi had lifted the ban to seek the “co-operation of the popular tendency represented by the paper in the blessed path towards freedom, democracy and the establishment of security”. Later that day, Mr Sadr appeared in public for the first time in two months, at prayers at the main shrine in Najaf, the Shias' holiest city.

Can he be truly co-opted? The government is almost certainly ready to drop a warrant for his arrest, which the Americans had insisted upon, in connection with the killing of a leading pro-American Shia cleric in April last year. President Ghazi al-Yawar said it was merely necessary for Mr Sadr to send a lawyer to court. But Mr Sadr, the scion of probably the most important clerical house in Iraq, is unlikely to accept anything less than a formal say in government—and that, despite the fine words, Mr Allawi will not give.

Meanwhile, Mr Sadr is trying to expand the area under his sway, benefiting from a truce that spares him intrusive American raids and avoids overt confrontation. His militiamen are as rough as ever, this month rampaging through Baghdad suburbs bordering al-Thoura, stealing cars and waylaying lorries carrying alcohol, torching liquor stores and hairdressing shops offering western *coiffure*. CD stores selling anything other than religious sermons face a similar fate. In western Iraq, Mr Sadr's men have moved into Kadhimiya, site of a famous Shia shrine, where a mullah last week gave liquor dealers two days to shut down.

For now, Mr Allawi, a secular Shia, seems loth to have a showdown that might cause more mayhem in Shia ranks. He is already struggling to bring Baathist insurgents back onside without alienating various Shia groups who feel they have lost out since the handover. At least half a dozen members of the now-dissolved Governing Council that worked alongside the Americans until the handover have formed a “Shia house”, among them Muhammad Bahr Uloum and Ahmed Chalabi. They could become a powerful block that could do well in the general election due in January. And they might not be averse to the idea of Mr Sadr's constituency of urban poor joining their ranks.

The UN team to help arrange and oversee the election has arrived. But it knows that unless the insurgency is contained it may well prove impossible to hold a nationwide ballot. Many Shias resent Mr Allawi's offer of an amnesty to former Baathists. In any event, his decision to leave Mr Sadr's militia untamed is a setback: after all, the prime minister did promise to disband all private armies. The Supreme Council for Islamic Revolution in Iraq, whose Iranian-trained Badr militia is Iraq's largest Shia one, has made much of Sunni killings of Shias as “spies” in and around the militant Sunni town of Fallujah.

In his struggle to gain control, Mr Allawi is seeking to accommodate rather than squash the various sectarian factions. It is a risky game. And it is too soon to say whether it is making Iraq a safer place.

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The United Nations

A winning recipe for reform?

Jul 22nd 2004
From The Economist print edition

After Iraq, some ideas for rescuing the UN

WHEN Kofi Annan, the UN's secretary-general, set up a “high-level panel of eminent personalities” last November to assess the UN's role in dealing with new global threats, many yawned. Surely such a bunch of worthies—most of them retired—would simply produce yet another platitudinous report, doomed to gather dust. “Relics trying to reform a relic,” said one UN ambassador. Yet, just halfway through its job, the group has come up with some surprisingly bold, though still unpublished, ideas about ways to save the UN from “fading into history as an ineffective, irrelevant debating society”—as George Bush predicted it would if it refused to sanction his attack on Iraq.

Meeting recently behind closed doors at Baden, in Austria, the group's 16 members (from as many countries) appeared near agreement on one of the most intractable issues that has dogged the UN almost since its inception—the composition of its powerful decision-making body, the Security Council. The present council—composed of five permanent, veto-wielding members (the four victors of the second world war plus China) and ten others elected for short stints on a regional basis—has long been regarded as anachronistic and unrepresentative of today's geopolitical realities. But no change has been made. Too many jealousies and vested interests are involved. Yet everyone is agreed that if the council's decisions are to have greater political clout, they must be given greater legitimacy.

Now the panel of wise men and women, among them Brent Scowcroft, President George Bush senior's national security adviser, and Yevgeny Primakov, a former Russian prime minister, believes it may have hit on a winning formula. The discussion in Baden showed an “overwhelming consensus” on proposals for an expanded 24-member council of three tiers: the existing permanent five (America, Britain, China, France and Russia); a second tier of seven or eight potentially semi-permanent members elected on a regional basis for a renewable term of four or five years (Brazil, Germany, India, Japan and South Africa might be in this group); and a third tier of rotating regional members elected, as at present, for a non-renewable two-year term. Only the permanent five would have a veto.

“The beauty of this formula”, crows one observer, “is that everyone wins. Some may have hoped for more, but at least no one loses.” Under the UN's charter, the council's membership is supposed to be based not just on regional diversity, but also on the members' willingness to contribute to world peace and security. But over the years, many countries have ignored the second criterion. Now the panel wants to reinforce it, particularly as the basis on which those aspiring to the second tier of membership should be judged. It suggests a full review, after 12-15 years, of all members' contributions to the work of the UN, including its peacekeeping missions' manpower and financing.

The panel has divided the rest of its work into six “baskets”: classic inter-state conflict; internal violence, including genocide; social and economic threats, such as poverty and disease; weapons of mass destruction; terrorism; and organised crime and corruption. The group decided early on to abandon any distinction between “hard” threats, which worry the rich world most, and “soft” threats, of greater concern to the rest of humanity. Both, it agreed, were inextricably linked.

The most difficult question has been how to deal with pre-emptive or preventive attacks, as on Iraq. Under the UN charter, the use of force is permitted only in self-defence, “if an attack occurs”, or if authorised by the Security Council. Common law also allows a pre-emptive attack for the purpose of self-defence if an attack is “imminent”. But it does not allow a preventive strike, that is, one designed to head off a more distant threat.

Yet the panel accepts that no state threatened by weapons of mass destruction can reasonably be expected to wait until an attack is imminent. By then, it agrees, it would be too late, and the UN would

have failed. So it recommends a more active role for the Security Council, under which it could authorise a preventive use of force, but only after a “serious and sober assessment” of the threat based on “clear and compelling evidence”.

The threatened country might still, of course, decide to go it alone anyway. The panel is divided over what then should happen. Most southerners want such unilateral action declared illegal, whereas most northerners believe that this would prove counter-productive. To get everyone to accept that the UN should always be consulted before the launch of a preventive attack would in itself be a major step forward, they argue.

The panel appears also to have won a consensus on humanitarian intervention. Even its Chinese and Russian members are reported to agree that there should no longer simply be a “right to protect”, but an actual “responsibility”.

These ideas are still far from being put into practice. The panel is to produce a first draft in September, before submitting its final version to Mr Annan by December 1st. He will then present it, with his own comments and recommendations, in September next year to the General Assembly, where it will need a two-thirds vote to be adopted. Parts can expect some fierce resistance, not least from the United States. “We're certainly not willing to accept that the Security Council should be the final arbiter on pre-emptive action,” says one American official. But the panel has already confounded its critics with the boldness of its proposals. It may do so again.

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Uganda

A catastrophe ignored

Jul 22nd 2004 | GULU AND KITGUM
From The Economist print edition

The tragedy of northern Uganda could have lethal repercussions in Sudan

JUST how bad do things have to get before the rest of the world takes notice? Some 95% of the population of three districts in northern Uganda—perhaps as many as 1.8m people—have fled their homes. They live in terror of constant attack by rebels who target children and whose brutality churns the stomach. Despite condemnations by the UN's Security Council, among others, the horrors of northern Uganda have attracted much less attention than the ethnic cleansing in Sudan's Darfur region. Indeed, by comparison, the atrocities in Uganda have been barely aired.

Uganda has a reputation for being quite well run. Its president, Yoweri Museveni, has won plaudits for his work against AIDS. Many Ugandans from the war-battered northern regions, inhabited mostly by Acholis, suspect that, though Mr Museveni's government has referred the violence to the new International Criminal Court in The Hague for investigation, it makes relatively little fuss abroad about the catastrophe because it is wary of Uganda's good image being tarnished.

Northern Uganda has, in fact, been at war ever since Mr Museveni took power in 1986. The level of violence has ebbed and flowed. Three years ago, it was reckoned that about 500,000 people had been displaced. Now that figure has more than tripled. Most of the victims live in miserable camps where they are kept alive by deliveries from, among others, the UN's World Food Programme and the Red Cross.

This year the UN has appealed for $112m for all of its operations in northern Uganda, but so far less than one-third has come through. The WFP has food left for another two months; with the rainy season already six weeks late, what few crops are still grown in the north are withering.

The rebels of the Lord's Resistance Army are led by a charismatic figure called Joseph Kony. It is more a cult than a classic guerrilla army. Mr Kony says he wants to run Uganda according to the ten commandments. More vitally than biblical backing, the LRA has been supported for much of its existence by the Sudanese government in Khartoum.

In 2002, under international pressure, Sudan agreed to let Uganda's regular army cross into southern Sudan to flush out the rebels of the LRA. Many flooded back into northern Uganda, murdering and massacring as they went. The Ugandan government then told the local people to leave their villages and settle in camps, for better protection. Ever since, desperate for food that is no longer grown in the countryside, the LRA has targeted these camps.

But it is not just food the rebels are after. Every day, they abduct ordinary people, especially children. Over the years they have enslaved thousands as porters to carry food and other loot, taking girls as sex slaves and boys for fighters. The younger they are, the easier to brainwash and keep in thrall by sheer terror. As many as 90% of the LRA's fighters are abducted children. Nassan Opiyo, now a 12-year-old, was forced when captured last year to kill a boy who had tried to escape. Then he was forced to drink his victim's blood. “I was told that if I did not do it I would be killed myself.” His story is typical.

Yet the Ugandan authorities say the war is nearly won. Colonel Charles Otema, the Ugandan army's intelligence chief for the north, says that the LRA has only 300 hard-core fighters left. “This war is over,” he says. Unconvinced, some 45,000 children known as “night commuters”, who fear abduction from outlying settlements if they sleep at home, cram the towns of Gulu, Kitgum and Pader.

It is true that since April a score of LRA commanders have surrendered with their men; one, Brigadier Kenneth Banya, was captured a week ago. The next day he was presented to General Charles Wald, an American general who oversees operations in Africa. The United States gives some modest help to the Ugandan army. But many Ugandans would like more. Henry Okello Oryem, a minister who also represents Kitgum in parliament, says he has appealed to the Americans to send special forces to finish off the LRA or to unleash at least one Tomahawk missile to “zap” its leader. He was disappointed. “They said it was not their war.”

For them, the war is far from over

Maybe not directly. But General Wald's report after his recent visit to Gulu should make people in Washington sit up. The Americans were instrumental in getting the Sudanese government to sign a deal with rebels in southern Sudan, who have been waging a civil war for most of the last 30 years. Now the Americans are threatening sanctions against the authorities in Khartoum unless they call off their war against the rebels in Darfur, in the west. If chaos prevails in western Sudan, it could infect southern Sudan too. And if the peace deal there unravelled, the Sudanese government might renew its support for Mr Kony and his LRA in America-friendly Uganda. Mr Oryem, with his call for American action, may have a point.

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Prize

Jul 22nd 2004
From The Economist print edition

Our Africa editor, Robert Guest, has won the Best Journalist prize at the Diageo Africa business reporting awards, for his survey of sub-Saharan Africa, ("How to make Africa smile", January 17th, 2004).

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Georgia

Putting out more flags

Jul 22nd 2004 | SUKHUMI, TBILISI AND TSKHINVALI
From The Economist print edition

AFP

Mikhail Saakashvili is using his international connections, as well as traditional tokens of authority, to put Georgia back on the map

Get article background

IS HE a gallant knight, raising high the standard of his ancient land and marching forth to restore its honour—or a New York-trained lawyer who began working life as a slick yuppie with an apartment near Central Park? Both roles come easily to Mikhail Saakashvili, the 36-year-old Georgian president who wants to transform his country from a truncated state, living on past glory, into a regional power with links to the West.

Not that he ignores past glory: he began his presidency six months ago by receiving a blessing at an 800-year-old monastery, founded by Georgia's greatest king. He has introduced a new state flag, and he flies it all the time. But this month he showed his cosmopolitan side: working the phone lines to Washington and Moscow to stem conflict in a remote area of the Caucasus.

At the height of the crisis, Mr Saakashvili recalls, he was conferring several times a day with people like Colin Powell, the American secretary of state, and Condoleezza Rice, the national security adviser, looking for their support in his dealings with the Kremlin. The net result, apparently, was that fresh conflict in South Ossetia, the breakaway region and potential war zone, was temporarily kept at bay, while Georgia's honour—and Georgian hopes of restoring some sovereignty in the region—were left intact.

It looks all too possible that fighting in South Ossetia's straggling villages will intensify: Mr Saakashvili raised the stakes again on July 20th when he threatened to renounce the ambiguous 12-year-old deal under which Georgians, Russians and local Ossetians have kept the peace—on the ground that it barred Georgia from securing one part of its legal territory.

But so far Mr Saakashvili's handling of this obscure but sensitive trouble-spot has been in keeping with his style: an opportunistic but also judicious promotion of Georgia's national cause. This involves playing to Georgian strengths, including

ties with western institutions: links with NATO were reinforced at the recent Istanbul summit (to Russia's fury), while the European Union has helped put together a $1 billion aid package.

At critical times—for example, when dozens of Georgian servicemen were detained and humiliated in Tskhinvali, the "capital" of South Ossetia—the president has shown restraint. But when Georgians found 160 helicopter-borne missiles in a Russian convoy—described by Moscow as "spare parts" for its garrison—the propaganda value of the find (and of Moscow's blustering) was well exploited.

What Georgia most wants to do now is control the mouth of the tunnel which leads from the Caucasus mountains (and the Russian region of North Ossetia) to the disputed zone. Once the smuggling, from which Russian soldiers and a few thousand Ossetians make a handsome living, is brought under control, it should be possible to bring the restive province to heel—albeit with a generous dose of autonomy. Or so the Georgians' theory goes: they want international (perhaps EU) help with monitoring the tunnel.

Western governments generally approve of the Georgian president but fear that his government may lack a clear strategy for coping with the risk of a major flare-up in South Ossetia—or in Abkhazia, the other place where Russian-oriented separatists have fought their way to secession. Mr Saakashvili scored a triumph in May when he asserted control over Ajaria, the south-western area that had been the fief of a local strongman. Now America and its allies are discreetly urging the president not to get carried away; they recognise Georgia's frontiers, but hope its government will avoid giving Russia rude shocks. When America recently trained 3,000 Georgian soldiers, it was laid down that they should not be sent to Abkhazia, which could easily become a flashpoint.

Most of the time, Mr Saakashvili shows little need of western mentors; his approach to the "national question" has been a model of sophistication when set against the jingoism of Zviad Gamsakhurdia, Georgia's first post-Soviet leader.

That is just as well. Compared with South Ossetia, which might be described as a smuggling racket with a patch of land attached, Abkhazia—a lush stretch of Black Sea coast, which Russian soldiers and politicians dearly love—presents a trickier problem. Its capital, Sukhumi, a place whose pine-scented air should be a magnet for tourists, is a slummy wasteland whose port is a free-for-all for shady business. With memories of a bloody 1992-93 war still fresh, local politicians insist that the defeated Georgians must not come back. "Those who fought against us, tens of thousands of them, may never return," growls Nugzar Ashuba, speaker of the local legislature.

In the end, Georgia's hope of restoring at least notional sovereignty over Abkhazia may depend on patching up relations with Russia, to which Mr Saakashvili offers two things: an open door to Russian investment (as welcome as Russian soldiers are unwelcome) and border security—no free passage for stray Chechens.

If Mr Saakashvili can hobnob with the Russians as easily as he can charm the Americans and play the medieval prince, he will be a president for all seasons.

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Russia's armed forces

Heads roll at long last

Jul 22nd 2004 | MOSCOW
From The Economist print edition

Sackings may signal a long-overdue change in Russia's army

AFP

Pals no more: Kvashnin (left) and Putin

HE CONDUCTED political battles the way he fought wars: doggedly and against all comers. Anatoly Kvashnin, the Russian armed forces' chief of staff who was fired this week, had spent most of his seven years in the job in conflict with people meant to be his bosses. With the previous defence minister, Igor Sergeyev, he had clashed over the role of the strategic missile forces, commanded by one of his rivals. He was locked in constant power struggles with the current minister, Sergei Ivanov. And he had blocked President Vladimir Putin's attempts to start the transition from a conscript army to a leaner, professional one. But his civilian opponents outmanoeuvred him a few weeks ago, when the Duma passed a law handing operational control of the army to the defence ministry and leaving the generals in charge only of strategy. After that rout, rumours of General Kvashnin's dismissal began; and in the end, he asked to go.

The sighs of relief are almost audible, and not just in the Russian government. It was General Kvashnin who in 1999, at the end of the Kosovo war, ordered Russian troops to seize the Pristina airport, provoking a stand-off that has soured relations with NATO ever since. As a military strategist, he viewed the world and its threats as if the cold war had barely ended. He failed to plan for new sorts of war—of the high-tech or guerrilla varieties—and instead ran impressive exercises designed to repulse massive invasions from east and west.

It was during just such an exercise last month, in Russia's remote Far East, that a band of rebels sneaked past the heavy troop presence in Chechnya to attack several targets in neighbouring Ingushetia. They left 88 people dead before disappearing unharmed into the night. Mr Putin seems to have used that fiasco as an excuse to get rid not just of General Kvashnin—who commanded an early, failed invasion of Chechnya a decade ago—but of three other generals responsible for the Caucasus region, including the deputy head of the FSB, the security agency.

This could be a sign that things are at last changing. With control of the army's operations in civilian hands and a new Caucasus command, reforms delayed up to now may go ahead. General Kvashnin's replacement, Yuri Baluyevsky, is seen as the opposite of his mercurial, stubborn ex-boss: more of a desk man, a strategist and military historian, who watches his words, stays out of politics and is pragmatic about co-operating with former foes. He has led disarmament talks and parleyed with NATO. He is also a joint author of reform plans, which would slim the ministry and the military command.

But what next? An enlightened approach would be to use the change of command as an opportunity to clean up the corruption in the armed forces—particularly in Chechnya, where they do a nice sideline in trafficking weapons and oil—as well as restarting the plan for creating a volunteer army. If, however, Mr Putin's plan is merely to strengthen his control over the armed forces and improve co-ordination between the various contingents in the Caucasus, it may prevent a repeat of last month's raid. But it will not turn Russia's army into a professional force capable of meeting its military needs, rather than a meat-grinder for its young men.

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Turkey

A whiter shade of pale?

Jul 22nd 2004 | ANKARA
From The Economist print edition

A botched anti-drug operation embarrasses Turkey's rulers

THE mild Muslims who run Turkey call their political movement the Justice and Development party: its acronym, AK, means white or clean. But the country still has a way to go before eliminating sordid cronyism and sleaze.

That is the conclusion many Turks have drawn from a ham-fisted attempt to foil a family of drug-dealers from the wild east. What began as a clumsy sting ended by exposing the weakness of the police—and the druglords' impunity.

The story began in Malatya province when police posing as buyers arrested Hamit Bayram, a scion of a well-known Kurdish clan, after he had offered them a car-load of heroin. For some reason, he was then brought east to Van, where his father Mustafa—a super-rich man who has been detained eight times on drug offences—is a local kingpin.

Hamit Bayram's detention did not last long. His father, flanked by clansmen with Kalashnikovs, burst into the police station in Van where his son was held. Not a shot was fired by the police; Hamit and his chauffeur fled.

The education minister, Huseyin Celik, is a man from Van; he admits that Mustafa Bayram telephoned to seek help after his son's arrest, claiming he had been kidnapped. “I extended my sympathy and declined,” Mr Celik insists. But there is worse. In March, another of Mr Bayram's sons, Hecer, was elected mayor of Edremit near Van—on the AK list. He joined the raid to free his brother.

Links between politics and the underworld are nothing new. But remember: the AK party swept to power 19 months ago on a pledge to live up to its name and put a stop to sleaze.

Mustafa Bayram now awaits trial for helping his son escape. Turks are watching to see whether he retains his ability to get off every hook. Mr Bayram first gained immunity from investigation after entering parliament in 1995 on a centre-right ticket. In 1999, he snuck back in on the list of a (defunct) Islamist party, Virtue, “although the Americans warned us about his drug links”—in the words of a senior veteran of Virtue. Mr Bayram's political career ended after he was accused of selling fake art.

Western drug-busters have recently praised the Turks for some record heroin hauls. But the handling of Bayram case will be a big test of the government's claim to be pure as the driven snow.

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France and the Jews

Hitting a raw nerve

Jul 22nd 2004 | PARIS
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An Israeli attack on French anti-Semitism causes uproar in Paris

AP

Time to pack up and go? Sharon says so

CHALLENGES to the country's image as a robust, secular democracy, with a distinct republican system that guarantees the equality of all creeds before the law will always touch the French political class in a sensitive place. Especially when religious diversity is already shaking that system to its foundations.

So when Ariel Sharon, the Israeli prime minister, urged French Jews to take refuge in Israel from the anti-Semitism that was raging in the land of liberty, equality and fraternity, politicians in Paris took it very personally. “We see the spread of the wildest anti-Semitism” in France, Mr Sharon told American Jewish leaders in Jerusalem on July 18th. Nor did he mince words about the cause: nearly 10% of France's population was Muslim—and this was breeding a new kind of anti-Semitism.

Within hours, French officialdom reacted furiously. The foreign ministry described the prime minister's comments as unacceptable; a day later, President Jacques Chirac's office said Mr Sharon would not be welcome in France unless he explained his comments. It was left to Avi Pazner, an Israeli government spokesman, to douse the flames a little. He ascribed the incident to “cultural misunderstanding”—and noted that one of his country's founding principles was its invitation to the Jewish diaspora to migrate to Israel. An increasing number of French Jews—albeit a small share of the total—are doing so.

The annoying thing for French politicians was that Mr Sharon's remarks coincided with a historically resonant public ceremony at which top public figures made a frank acknowledgment of the evils of anti-Semitism under the wartime Vichy regime. What the ceremony commemorated was the Vélodrome d'Hiver round-up in July 1942, when 8,000 French Jews were arrested over two days, and detained at a sports stadium in Paris. Almost all of them were deported to concentration camps via a transit camp in Drancy. Only in 1995 did France officially accept that its own nationals had carried out the round-up. This year, six government ministers, including Michel Barnier, the foreign minister, took part in the memorial ceremony, and they used it to make solemn warnings about the resurgence of anti-Semitic activity—of which there is plenty of objective evidence. According to the interior ministry, there have been 510 anti-Semitic threats or attacks in the first six months of 2004, against 593 last year.

At the top end of French society, where political orthodoxies tend to be formed, most people would agree that life for Jews is relatively comfortable. Among the most successful members of France's 600,000-strong Jewish community—the largest in Europe—are Dominique Strauss-Kahn, a former finance minister, Laurent Fabius, a former prime minister and Bernard-Henri Lévy, a leading intellectual.

But in the rougher parts of French cities, there is often a direct correlation between events in the Middle East and the level of inter-communal tension. The latest wave of anti-Semitic acts started with the beginning of the second *intifada* against Israel in autumn 2000. Whereas in the 1990s most incidents were carried out by white supporters of Jean-Marie Le Pen, a xenophobic politician, the perpetrators of the recent attacks have tended to be disaffected young Muslim men.

Though worried about the rise of anti-Semitic incidents, most Jewish organisations in France refuse to endorse Mr Sharon. France is not an anti-Semitic country and it is not France's large population of Muslims that creates anti-Semitism, insists Joseph Zrihen at CRIF, a council representing Jewish organisations in France.

Still, Israeli officials point tartly to the fact that France has the most pro-Arab government in the European Union. Mr Barnier irritated Israel when he declared his “solidarity with the Palestinian people” during a visit to Ramallah on June 29th. After a UN resolution on July 20th called on Israel to stop building a wall in the West Bank, Dan Gillerman, Israel's ambassador at the UN, accused France of behaving “disgracefully”—by lobbying for the resolution's acceptance.

In theory, this sort of diplomatic sparring should have no effect on the social and political climate in France's cities. In practice, tension over the Middle East and the mood in the French street do often march in step, to the detriment of France's ideals of inter-communal tolerance.

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German health care

The sound of iron dropping

Jul 22nd 2004 | BERLIN
From The Economist print edition

Scrapping a 19th-century system is a difficult but necessary step

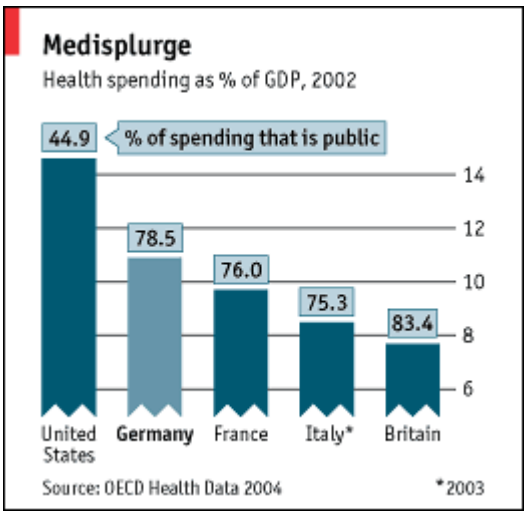
EVERY time a German worker consults a doctor, the historical achievement of Otto von Bismarck grows a little greater. So say admirers of the 19th-century chancellor who created an impressive social safety-net, with a system of health insurance funded by workers and their bosses.

As German history students know, the iron chancellor was “dropped” in 1890 by Kaiser Wilhelm II—but his legacy, in the field of health care, is intact. After more than a century of political strife, economic crises and world wars, Bismarck's ideas still underpin the financing of German medicine. Only now do some people seriously suggest letting the chancellor go.

Why the pressure for change? As in most western democracies, the cost of treatment is surging. What marks Germany out is the way that workers, and their employers, shoulder those costs, thanks to a system which acts as an increasingly prohibitive charge on labour.

Economics apart, there are tactical reasons why many politicians want to bring this issue to a head. For the centre-left government, which aims merely to modify Bismarck's legacy, a policy success would show voters that its reform agenda can be humane as well as tough. As for Angela Merkel, who leads the opposition Christian Democrats, she sees a chance to prove herself a real, Thatcherite mould-breaker.

So how has the argument developed? In the past 25 years, health-care finance has been tinkered with as many times. Reforms have aimed to cut costs and to reduce coverage. In January, dental benefits were trimmed and patients made to pay a fee of €10 ($12.40) per quarter for visits to the doctor. Such steps have kept spending by statutory health-insurance firms stable—although Germany spends a big share of its GDP on health (see chart).



But so far nothing has solved the basic problem, the system's antiquated funding system. Bismarck based contributions on a worker's income; in his time the main aim of health insurance was to provide income for those on sick leave. To this day, a uniform percentage is docked from pay, with employers matching the amount. People above a certain income level (now €46,350 a year) can quit the public system and switch to a private health insurer, which links premiums to risk. For tenured civil servants, the state picks up a big part of the bill, with supplementary insurance taking care of the remainder.

These rules worked in days of full employment and closed economies; but they are not sustainable in a globalised era. Unemployment and early retirement have cut the base for contributions—driving up payments by employers and employees, from 8.2% of a worker's gross income in 1970 to 14.2% this year. If nothing is done, demography and rising costs will turn health contributions into an unbearable levy on labour: they could rise to 34% of a worker's wages by 2030. One supposed aim of the system is to make rich households subsidise poor ones, but often the opposite occurs. People with high earnings from investments often make lower contributions than humble wage-earners.

In the government camp, most people favour boosting contributions through a *Bürgerversicherung,* or citizen's insurance scheme, which would broaden the range of people required to pay into the system.

Several models are being discussed, but all would extend the current system to include civil servants and the self-employed as well as all sorts of income. Some would also abolish the income threshold, and limit private health-insurance firms to providing extra coverage for non-vital services. Others want private and public insurers to compete on an equal footing.

Yet this approach, critics say, does not solve the main problem: health-care payments are a tax on labour. Including other forms of income, and all citizens, would lower contributions by 2% at best. So radical Bismarck-droppers propose a flat-rate payment, which can go by various names. Supporters call it a health premium; opponents say *Kopfpauschale*—something like the “poll tax” which triggered riots in London in 1990. Whatever you call it, this proposal would also involve tax-financed subsidies for children and the poor.

For the cautious folk who advocate citizen's insurance, a big challenge is what to do with private insurance firms. Giving them only a complementary role, or having them compete with statutory insurers, would pose legal problems. The main headache for flat-fee folk is how to finance the subsidies. Paying off losers could cost €27 billion—almost impossible in an age of tight budgets. Political hurdles may be even harder to overcome, even within the opposition. Some Christian Democrats like the ideal of social equilibrium; the same, and more, goes for their Bavarian allies, the Christian Social Union. Its leaders regard flat-rate premiums as socially unjust and a hard sell. There is another factor: with flat fees, redistribution would be transparent, and harder to agree on.

Such obstacles have already led to a search for more palatable solutions. On July 15th, Bert Rürup, an economist at Darmstadt University, presented a proposal to set the health premium at €169. Children would pay only €78, with the differences financed by the federal budget. Low-income households would also get subsidies, but the money would be raised by such levies as a small supplementary health charge based on income.

In whatever form, flat fees seem to offer the only sure way of tackling the macro-economic problem. Introducing more competition into Germany's health-care industry would help as well.

Is is true that flat fees would desecrate German history? Reformers have an answer. Bismarck was a pragmatist, not a dogmatist; he wanted to pre-empt the socialists, not create a nanny state. If he was alive, he would cry “drop me” too.

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Charlemagne

A crucible—or a zoo?

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From The Economist print edition

Odd behaviour is the only thing that stirs interest in the European Parliament

THE European Parliament building in Strasbourg is a tough place to find your way around at the best of times. It is a baffling combination of towers, hemicycles, courtyards, conference rooms and tree-filled atriums, all linked together by glass lifts and dark, leather-lined corridors. Even veteran members of the European Parliament (MEPs) can lose their way, particularly since they only use the place four days a month—spending the rest of the time at their other vast headquarters in Brussels. But this week the Strasbourg building was unusually full of lost-looking people. That is because a new batch of MEPs has just arrived in office, following last month's elections. The addition of ten new countries to the European Union in May—plus a high rate of turnover among the 15 older members—means that fully 70% of the 732 politicians who turned up in Strasbourg were entirely new to the place.

A first day at school always generates excitement. But the parliament also has real reasons to be upbeat about its future. For its newly elected president, Josep Borrell, a Spanish Socialist who is himself a newcomer to the parliament, it is the “crucible of a supranational democracy”. Once a talking shop, the parliament's powers have steadily expanded over the past 20 years. It now plays a vital role in shaping laws on everything from business to the environment and the EU budget. The European constitution, if approved, will further expand the parliament's powers. On July 22nd—as *The Economist* went to press—the parliament was due to vote on whether to approve José Manuel Barroso, a former Portuguese prime minister, as the new president of the European Commission. Mr Barroso was expected to win, which is just as well since a “no” would plunge the Union into crisis.

There is only one flaw in this rosy vision of a parliament growing in power and confidence as it assumes its role at the centre of a supranational democracy. The parliament lacks an element that is crucial to any really healthy democracy, namely public interest and engagement. Even as the parliament's powers have grown, turnout in European elections has steadily fallen. In last month's poll it fell to a new low of 46%. Not bad, perhaps, by American standards—but much lower than the average in national elections in Europe. As a succession of disillusioned young politicians have discovered, the European Parliament is a great place if you like complex committee work, schmoozing in bars or claiming generous expenses—but it is an impossible place to build a political reputation. The excited new MEPs who crossed the threshold this week would be less upbeat if they knew they were entering the political equivalent of the Bermuda triangle.

The election of Mr Borrell as the parliament's new president demonstrated a lot that is wrong with the place. As Daniel Cohn-Bendit, leader of the Greens in the parliament, put it with cruel accuracy, the parliament faced a choice between “a little bureaucrat and an historic figure”. It plumped for the bureaucrat. By choosing Mr Borrell over Bronislaw Geremek, who played a vital role in the Solidarity movement in Poland in the 1980s, the parliament fluffed a chance to appoint someone with real moral stature, and to demonstrate that west Europeans mean those warm words about the “reunification of Europe”.

Mr Borrell may raise the parliament's profile in a different way. Although he is a graduate of Stanford University in California, he is also a fierce critic of American foreign policy whose main weapon against the Geremek challenge was reminding colleagues that the Pole had supported the Iraq war. For good measure he added that one of his goals was to prevent the EU becoming a “Trojan horse for neo-liberalism”.

Freaky ways to fight boredom

Such over-heated rhetoric—and the conflicts it can generate—may, alas, be the best way for the European Parliament to win attention. The only time in the last parliamentary term that a debate aroused real interest across Europe was when Silvio Berlusconi, Italy's prime minister, compared a German deputy to the commandant of a concentration camp. The prospect of more memorable moments has been boosted by the arrival in the parliament of a promising crop of extremists and eccentrics. There is Alessandra Mussolini, who as the grand-daughter of the late Italian dictator is a reminder of Italy's own fascist past. There is a clutch of far-rightists from France, led by Jean-Marie Le Pen, the leader of the French National Front, and his daughter, Marine. Six populists from Poland's Self-Defence party are said to have a penchant for lobbing potatoes.

And then there is the arrival of 11 members from the United Kingdom Independence Party (UKIP), which wants Britain to quit the EU. The party's most famous member is Robert Kilroy-Silk, a sleek perma-tanned former TV host. But in recent days he was upstaged by two lesser-known UKIPMEPs: Ashley Mote, who was booted out of the party even before arriving in Strasbourg, after being accused of welfare fraud; and his colleague, Godfrey Bloom, who grabbed headlines by joining the parliament's women's committee and announcing that one of his goals was to persuade more women to “clean behind the fridge”. For good measure he added that no small business in its right mind would hire a woman of child-bearing age.

Such antics guarantee front-page coverage for the European Parliament in Britain. But UKIP is not big news elsewhere in Europe. Indeed, the main problem for the parliament's ambition to become the centre of a great pan-European deliberation is the fragmentation caused by the lack of any pan-European media, and Europe's wide variety of languages and cultures. For this reason, Mr Borrell's ambition to see the parliament become “the crucible of supranational democracy” seems unlikely to be realised. Still, the parliament may turn out to have a promising alternative future—as a political freak-show.

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Anti-social behaviour

The war on incivility

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Britain's latest crime worry is anti-social behaviour. It's hard to define—and even harder to police

ARE those uncouth teenagers hanging around on the street corner just going through a difficult phase, or are they chipping away at the foundations of decent society? The tendency these days is to think the worst. “Our country faces two major threats”, says Frank Field, a Labour MP and a veteran crusader against anti-social behaviour. “One comes from international terrorism, the other from neighbourhood terrorists.”

A decade ago, people worried about tangible crimes like burglary and car theft. As figures released on July 22nd showed, those are now in remission. But the overall level of anxiety appears not to have diminished at all. In the kind of psychological shift that unnerves governments, public worries now focus sharply on petty incivilities like vandalism, loud music and public loutishness.

The need to crack down on such annoyances was the main theme of two speeches this week by Tony Blair, the prime minister, and David Blunkett, the home secretary. It was also the chief spur to plans to put 12,000 more police on the streets in the next four years, along with 20,000 extra community-support officers.

The war against anti-social behaviour may have been formally declared this week, but it has been heating up for the past few years. The state's arsenal starts, softly, with “acceptable behaviour contracts”, first introduced in 1999, in which tearaways promise to calm down. Should they fail to do so, they are liable to be slapped with an “anti-social behaviour order” (ASBO)—a list of prohibitions, issued by a magistrate, which may prevent them doing uncivil things, hanging out with known troublemakers, or even visiting their favourite stomping grounds. A petty tyrant who steps out of line is liable to spend up to six months in prison.

Such remedies are draconian, particularly given that vandalism—the most measurable kind of anti-social behaviour—has been declining since 1995 (see chart). Even coppers are surprised. “I never thought I would live in a country where the police would have these powers,” says Stuart Chapman, a chief superintendent from the South Yorkshire force.

The powers are also virtually unique. Other countries fret about youthful misdeeds, but mostly because they are thought to lead on to more serious stuff. In America, the fear about teenagers hanging around the streets is that they will get sucked into gangs. There, as in much of continental Europe, a distinction is drawn between minor indiscretions, which are dealt with through informal negotiation or community sanctions, and criminal offences, which lead to custodial sentences.

Britain's innovation is to have criminalised behaviour that is not necessarily an offence in law. To obtain an ASBO, local authorities and the police do not have to prove beyond a reasonable doubt that an offence has been committed. They only have to establish, on the balance of probabilities, that the local lout is making other people's lives difficult. That is fairly easy, which explains why, of the 2,497 orders sought before the end of March 2004, only 42 were refused. But while civil standards of proof apply to the issuing of ASBOs, criminal sanctions can be

applied to those who break them. And they can be handed out for anything, from egging houses to dealing in drugs. Kate Hammond, a specialist prosecutor in Manchester, says, mildly: “It's quite a large stick.”

For local authorities, the new laws are a blessing. They now have a weapon against troublesome tenants—even the ones who live in private accommodation, who were formerly difficult to reach. They can disperse groups of youths and drunks from traditional trouble-spots, some of which now proudly display signs declaring them areas free of anti-social behaviour. Some authorities have made more use of ASBOs than others—about a third of the national total comes from Greater Manchester, for example. But pressure from voters and the government means that local authorities are likely to level up, not down.

Oddly, though, not everyone is happy. Some point out that ASBOs are likely to put more young people in prison, or into the care of the already struggling probation service. The number of under-21s in the slammer rose by 69% between 1992 and 2003; the trend reversed last year, but a few breached ASBOs would soon change that.

And even those in the front line worry that they have unleashed a monster. Council staff report an increasing number of calls about crying babies and children playing football in the street—petty annoyances that used to be dealt with by a quiet word, but which they are now expected to do something about. As Jan Wilson, the leader of Sheffield City Council, says, “this thing seems to be gaining a momentum of its own.”

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Defence cuts

Thinning the ranks

Jul 22nd 2004
From The Economist print edition

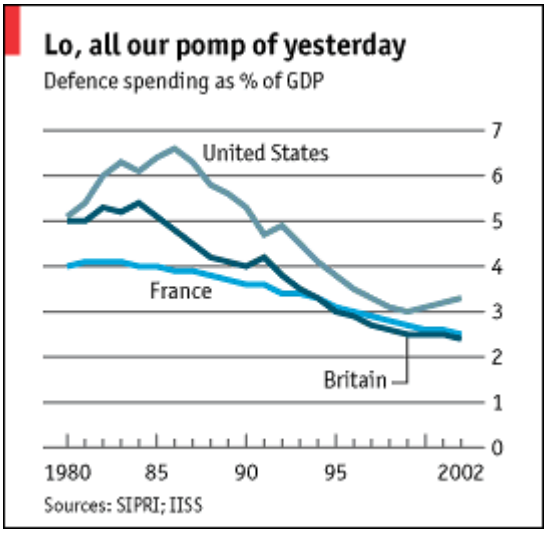
Defence cuts will be painful, but the hardest questions have been ducked

AMID the continued scalp-scratching over the Iraq war this week came an announcement of far greater significance for any future British role in such a fray. On July 21st, Geoff Hoon, the defence secretary, announced a programme of big cuts to the country's already creaking armed forces. Where previous defence reviews since the cold war have tended to trim the supposed fat of the armed services, Mr Hoon began orthopaedic surgery. Assuming commitments elsewhere in the world remain much as they are, Britain's armed forces will soon be incapable of supporting American troops as they did in Iraq.

In all, 20,000 military and civilian jobs are to go. The air force—which still shows a little flab—will be hit hardest, losing 7,500 jobs, some training planes and at least one air base. The navy will lose three aged destroyers, three worryingly new frigates and 1,500 sailors. Several army regiments will be amalgamated, and four battalions scrapped, though it remains unclear whether the overall number of soldiers will fall. Seven armoured squadrons, featuring the Challenger 2 tank that was used to blast a path to Basra, must also go.

In exchange, Mr Hoon promised more special forces and high-tech gadgetry. His particular desire is to attain “network enabled capability”: military jargon for a computer system that promises to co-ordinate men and machines on the battlefield; perhaps more importantly, it should help British and American soldiers fight more effectively side by side.

But the plans Mr Hoon announced do not add up to full-blown modernisation—largely because there's not enough money for it. British defence spending has shrivelled since the end of the cold war (see chart) to a historically low 2.4% of GDP. Earlier this month, Mr Hoon was promised a small increase by the Treasury, but also instructed to curb his ministry's existing expenditure by £2.8 billion ($5.2 billion) over the next three years.



That's not bad by miserly European standards—but sits oddly with the British government's warlike habits. Since coming to power in 1997, Tony Blair has intervened militarily in Sierra Leone, the Balkans, Afghanistan and Iraq. At the war's height, 45,000 British troops were deployed to Iraq, representing almost half the army's strength. With over 22,000 British soldiers still operating abroad and in Northern Ireland, the army is grievously overstretched. The best infantry regiments are currently being given only nine months' break between deployments, instead of the usual two years. The naval fleet, though elderly, is also sorely pressed. Now officials are apparently considering using the army in Sudan, either by helping to deliver aid, or protecting refugee camps against marauders.

In an effort to present his shake-up as something besides cost-cutting, Mr Hoon reiterated the strategic commitments laid out by his predecessor in 1998. These begin with the assumption that British forces would never join a major conflict without their American allies. Accordingly, they must be capable of performing one “enduring Medium Scale operation”, such as now in Iraq; one “enduring Small Scale operation”, such as in Kosovo; and a “one-off Small Scale intervention”—Sudan, perhaps, or election support in September for Afghanistan's feeble government.

In fact, British forces could hardly fulfil these duties even before these latest cuts. To send troops to Iraq, Britain had substantially to withdraw from Kosovo and Afghanistan. Left to the care of less seasoned NATO troops, both countries have seen rising insecurity. Only by withdrawing the 12,500 troops remaining in Northern Ireland would the army stand a chance of managing the tasks the government is setting for it. That is presumably the plan's crucial unstated assumption.

What is also missing from Mr Hoon's plans is an outline of what Britain actually needs its armed forces for. Spending at current levels will not sustain a military equipped both to assist American troops in big fierce wars and to perform the wide-ranging peacekeeping that British soldiers do particularly well. Without more modest and well-defined ambitions, many officers fear a fiasco looms. Clearly, it is time for another review.

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Animal-rights extremism

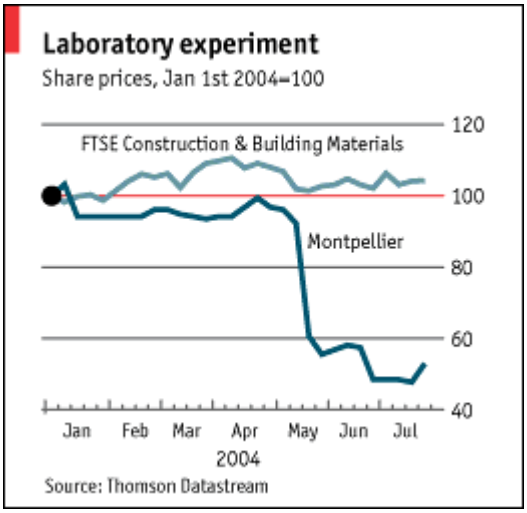
Animal frightfulness

Jul 22nd 2004
From The Economist print edition

Unreason is on the march, and a lab in Oxford is the latest casualty

DEALING with blackmailers and attempts to kill their staff are not among the core skills of the construction industry in Britain. For the companies contracted to build a new research laboratory at Oxford University, however, threats from thugs now outstrip traditional builders' foes like bad weather and fussy architects. So far, they are losing. Travis Perkins, which supplies building materials, stopped delivering in March. This week Montpellier Group pulled out of the contract to build the laboratory. Another victim is RMC Group, which supplied cement. Its plant at Chertsey was set on fire and its distinctive orange trucks have had their brake pipes and cables cut and their tyres slashed. An anonymous posting on Arkangel, a website for animal-rights fanatics, boasted that another raid, on the company's Bournemouth offices, cost it £250,000.

Animal-rights extremists have used the same tactics on Montpellier and RMC that have worked before on suppliers to Huntingdon Life Sciences, a research laboratory near Cambridge. The victims receive hundreds of phone calls, faxes and e-mails, making it difficult for them to function normally. If this fails, senior managers or directors may receive threatening letters, warning them to pull out of a contract, or else. The “or else” can be pretty nasty: sending forged criminal records to company directors' neighbours, purportedly showing the executives to be paedophiles, for example.



If a company is publicly traded, it can be hit that way. Montpellier's shareholders received bogus letters purporting to be from senior management, urging them to sell before the animal-rights campaign took effect. That made the company's share price crash (see chart).

Oxford says the £18m laboratory will be completed by the end of next year, and is looking for a replacement for Montpellier. Researchers will use the facility to study neurodegenerative illnesses; it will also work on treatments for cancer and heart disease. “If people want real advances in treatment they have to accept that some of them will be due to animal procedures,” says Tipu Aziz, who works on Parkinson's disease at Oxford.

The government has spoken out loudly in Oxford's defence. Lord Sainsbury, the science minister, promised the “fullest support” to make sure the laboratory is completed on time. David Blunkett, the home secretary, called the animal-rights extremists “internal terrorists” and promised an announcement shortly on toughening up existing legislation.

Nice words. But the signs are that the proposals will not bring the kind of big changes to the law that the pharmaceutical industry wants. That may not be a problem, since the police already have powers to deal with extremists. More worrying is the apparent ineffectiveness of the units that already exist to deal with animal-rights extremism: NETCO (the National Extremism Tactical Co-ordination Unit) and Operation Co-ord. NETCO in particular is staffed by junior policemen, rather than tough anti-terrorism specialists.

The success of animal-rights extremists has also inspired other groups to carry out illegal activities, albeit at a lower intensity. Bayer, a multinational biotech firm, says anti-genetic-modification groups have started to hassle its directors, pour paint-stripper on cars and smash windows at plants. This has not shown up on the bottom line yet, but the company says that it makes it “harder to convince executives

that Britain is a good place to do business."

Gloom about the prospects for GM in Britain has also led Syngenta, the last crop-science company with a research and development arm in Britain, to move to America, draining the brains of British geneticists and reducing the pool of funding for university research. "Companies don't move to America and continue to fund PhDs in Norwich," the Agricultural Biotechnology Council says.

In short: a bunch of fanatics and their woolly-minded backers threaten science, business and the rule of law.

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Race relations

Some of my best friends are black

Jul 22nd 2004
From The Economist print edition

White Britons have few black friends. But that's not because of racism

NINE out of ten Britons have “few or no” black or Asian friends, according to an opinion poll splashed across the *Guardian*'s front page this week. Of those polled, 54% said they didn't even have one close black or Asian friend. All this prompted predictable breast-beating about a “gulf between races and religions” and worries that the situation “may be worsening”. Trevor Phillips, the chairman of the government race watchdog, the Commission for Racial Equality, said the lack of contact may foster racism. Others say it reflects it.

But non-whites make up a mere 7.9% of the British population and tend to be concentrated in large cities, with 45% living in London. In other words, nearly half of all ethnic minorities live in a city with only 12% of the total population. So it's no surprise that the overwhelmingly white majority have their friends mostly elsewhere in that vast majority. What is surprising, and encouraging for supporters of racial harmony, is that nearly half of Britons claim at least one close non-white friend. Among ethnic minorities, 70% say half or more of their friends are white.

More intimate ties cross racial lines too: “Inter-ethnic relationships are more common in Britain than America,” says Richard Berthoud, of Essex University. Although statistics are sparse, demographers reckon Britain has a higher rate of inter-ethnic cohabitation and marriage than other western nations.

Mr Phillips says rightly that personal experience is a powerful weapon against racism. He should note that it's working.

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Transport

Stop-go

Jul 22nd 2004
From The Economist print edition

The government flinches on fuel prices—but promises road-pricing later

SHORT-TERM cowardice and long-term courage: that's Britain's transport policy in a nutshell, following a bunch of big announcements. This week the government gave its strongest commitment to road-pricing. By 2014, technology permitting, drivers will pay per mile driven, ranging from pennies on lightly used country roads to £1.30 a mile at peak-time on the most congested urban ones.

That scheme, requiring a meter in every vehicle, would cost an annual £3 billion to run, but would bring in revenues of up to £9 billion. The surplus could go to public transport, or be used to cut motoring taxes.

Either way, the scheme's welcome, if a long way off: rationing road-space by congestion is inefficient, dirty and expensive. In the nearer term, local authorities will be encouraged to adopt their own congestion charges, as pioneered successfully by Ken Livingstone, the mayor of London.

Ministers also inched towards approving Crossrail, a much-delayed rail scheme linking west London with the Docklands financial centre in the capital's east. The government said it would put a bill through Parliament to give the £10 billion project the necessary legal footing. But the timing of that, and of the scheme itself—Britain's biggest infrastructure project ever—is still unclear. Trains won't start running before 2013—a year too late for London's hoped-for Olympic games.

A long-awaited new report on Crossrail for the government by Adrian Montague, an investment banker, says that raising the money will be tricky. Business groups in the capital say their members are ready to pay extra taxes. The government will cough up a bit. But there's still a gap: one way of filling it is a bond issue. Given the dreadful record of cost overruns on big rail projects so far, such as the upgrade of the West Coast Main Line, which has risen from a planned £2 billion to £9 billion, investors may be cautious.

It's a sure bet that the minister for transport, Alistair Darling, will not be around to take the credit for either Crossrail, or road-pricing. So a willingness to think about the future is welcome. A retreat from the ambitious government targets in the ten-year plan announced in 2000—"doubling the use of light rail", for example—is realistic. But on shorter-term issues, the government has flinched. Earlier this month it brought the overall direction of the railways back under civil-service control, which on past experience means micro-management and political meddling.

Most craven is its refusal to raise fuel duty in line with inflation: a once-postponed rise due in September has now been pushed back to November. The government likes to talk greenly about the wider costs incurred by cars and lorries. Where facing down the noisy motoring lobby is concerned, it becomes timid.

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Public-sector productivity

Smoky mirrors

Jul 22nd 2004
From The Economist print edition

Stand by for a row about official figures

HAVING showered sackloads of taxpayers' cash on the public services, the government is understandably twitchy about the charge that the results are disappointing. When official figures suggested that public-sector productivity was indeed falling, one of Britain's top economists, Sir Tony Atkinson, of Oxford's Nuffield College, was asked to investigate.

His interim findings on measuring government output, published on July 19th, sound terminally dull. But they promise a political storm. The final report, expected in January, is likely to result in figures showing the public services are more productive than previously reckoned.

Already, recent revisions from the Office for National Statistics (ONS) have shown that the annual increase of nearly 10% in the cash budget of the National Health Service (NHS) in the five years to 2003 has brought not the mingy 2% annual increase in output, which previous estimates showed, but nearly 4%. The upgrade reflects the use of much more detailed figures covering over 1,700 different types of treatment instead of 16 broad categories.

But that's just quantity. Sir Tony says that the figures should also be adjusted for quality. So early next year, the ONS is likely to publish new statistics that take account of improvements such as shorter NHS waiting times and better exam results in schools.

But quality is in the eye of the beholder. Will the NHS figures feature the rising incidence of hospital-acquired infections like antibiotic-resistant superbugs? And what about grade inflation, which casts doubt on the improving exam results?

Already the Conservative Party is crying foul. Oliver Letwin, the shadow chancellor, denies that quality improvements in the public services can really be measured objectively. The idea “that such a fuzzy concept should be captured in the measurement of national output is absurd,” Mr Letwin says.

Government statisticians insist that everything will be transparent. But if the new measurements provide the results for which the government so ardently hopes, the supposedly neutral number-crunchers risk being dragged into a fight that may endanger their own reputations.

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Council-tax reform

In the long grass

Jul 22nd 2004
From The Economist print edition

Labour postpones an awkward decision until after the election

AMID a summer blitz of initiatives and policies designed to set the agenda for next year's election, the government has been strangely coy about one important subject: the reform of local-government finance. An inquiry on this vexed issue published its report on July 20th, but with a disclaimer. Though chaired by Nick Raynsford, who just happens to be the minister responsible, it was “a report to government, not by government”.

Mr Raynsford's response to the findings of his own inquiry was to set up another one, to be undertaken by Sir Michael Lyons, a municipal troubleshooter. His report will come at the end of 2005, safely after the next election.

That indicates the government's eagerness to push the subject of council tax as far out of voters' sight as possible. The outrage prompted by an average increase of 12.9% in 2003 caused a fit of nerves in Labour's ranks. Extra cash from central government kept the increase to 5.9% this year.

The underlying problem is that local authorities can raise locally only a quarter of the money they have to spend. Even a small shortfall in central grants sends council-tax rates soaring.

The simplest solution would be to restore to local councils the right to tax business premises, which has been centralised since 1990. Owners of valuable houses, who currently get off lightly, could also pay more. But Labour will be cautious even after the next election. Botched reform of local taxes was Margaret Thatcher's undoing. Ministers remember that, and worry.

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Bagehot

The birthday boy

Jul 22nd 2004
From The Economist print edition

All successful political leaders are resilient. None more so than Tony Blair

Get article background

AS PARLIAMENT rises for what will probably be the last summer recess before the general election, Tony Blair, who celebrated his tenth anniversary as Labour leader on July 21st, is the master of all he surveys. The threats to his leadership, both internal and external, have withered. His grip on power is now firmer and more complete than at any time in the past two years; perhaps even since he became prime minister.

Almost written off in some quarters little more than three months ago—who now remembers John Prescott's talk of shifting plates in British politics?—Mr Blair's resurgence is testimony to his emotional and physical resilience, political cunning and sheer cold-blooded ruthlessness. All were apparent this week in an otherwise weary, lacklustre Commons debate on the Butler committee's report into intelligence failings over Iraq.

First, Mr Blair unhesitatingly promised to implement all the recommendations: no more mixing up of government dossiers with intelligence reports; full inclusion of caveats if and when intelligence material is again placed in the public domain; in the event of future conflicts, the creation of a proper war cabinet with formally minuted meetings.

After that came the passionate defence of his Iraq policy; and finally, the demolition of Michael Howard. The Tory leader had managed to get himself in a terrible tangle by arguing that while still supporting the war, he would have voted against it had he known what he knew now. While Mr Blair dealt firmly and confidently with the surprisingly few dissidents on his own side, Tory MPs squirmed in embarrassed silence.

What explains Mr Blair's renewed ascendancy? Although there are some people who will never forgive the prime minister for the war, in an oddly cathartic way, Lord Butler has helped lift the “shadow of Saddam”. But there is much more to it than that. Mr Blair's decision last year to get ministers working on five-year plans for their departments has proved unexpectedly successful.

In the first place, it has given the prime minister a lever to wrench back control of domestic policy from the chancellor, Gordon Brown. The Treasury has been an unaccustomed bystander while cabinet ministers, egged on by Mr Blair and his advisers, have come up with an increasingly Blairite agenda for a third term. It's not quite a return to cabinet government, but there is a greater sense of involvement in a team enterprise than before. Ministers have been made to feel more important and are quite proud of the plans they have come up with. Mr Brown may enter some practical objections to some of the details, but his ability to alter the thrust of policy is diminished.

Mr Brown finds himself constrained in other ways. Still hopeful of succeeding Mr Blair midway through the next parliament, it is entirely in Mr Brown's interests to secure the biggest possible majority for his party next year. That would be undermined by too direct a challenge to the prime minister's authority. Mr Brown also has quite a lot on his plate in carrying through the reforms laid out by Sir Peter Gershon, his efficiency adviser. The civil service and public sector unions have threatened to resist the implied loss of getting on for 100,000 jobs. For once, Mr Brown will find himself directly in the firing line as the government tries to do something unpopular with its own supporters.

As well as reasserting the prime minister's influence at the expense of the chancellor's, the five-year plans have given the government renewed purpose, something notoriously hard to achieve after seven

years in office. There is an obvious and not exactly flattering reason for all this energy. Rather shockingly, it is only now that Mr Blair has finally worked out what he wants to do and how to do it. Mr Blair may be a bit tired and one or two cabinet ministers are past their sell-by dates, but the government has not exhausted itself intellectually. Indeed, some experienced ministers feel that they are just getting into their stride.

Which is bad news for the Conservatives. The policies the government now espouses—from toughening up the criminal-justice system to increasing the diversity of school management and paying private health providers to carry out NHS operations—are likely to play well with the voters the Tories must win back. The effect has been to squeeze Mr Howard's room to develop an alternative that is distinctive without being flaky.

It is still too early to say whether the Tories' ideas for watered-down voucher schemes in health and education will appeal to those who would like more control over the way their taxes are spent. But initial signs are not encouraging. Coming a poor third in both last week's by-elections was ominous. Not a single poll conducted in the immediate aftermath of Lord Butler's report gave the Tories a lead over Labour.

No bigger than a man's hand

Mr Howard, it is frequently observed, has brought some much-needed discipline and professionalism to his party. But despite this impressive achievement, he has made almost no mark on the wider electorate. His desperately floundering performance over the last few days suggests that he knows that time is running out. Since the weekend, the star columnists of the *Daily* and *Sunday Telegraph*, the house journals of the Conservative Party, have been queuing up to wring their hands. Their common theme was that Labour under Mr Blair—the true heir to Margaret Thatcher, suggested one—is simply unbeatable.

As Mr Blair contemplates an unusually tranquil summer holiday, there is just one tiny cloud on the horizon. A characteristic of recent elections in different parts of the world has been a desire to punish incumbents. There will be some of that in Britain too. Nothing, it seems, can help the Tories, but the anti-war Liberal Democrats are ready and waiting to receive the vote of anyone who may have read this column with a sense of mounting frustration and despair.

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Shipping

On the crest of a wave?

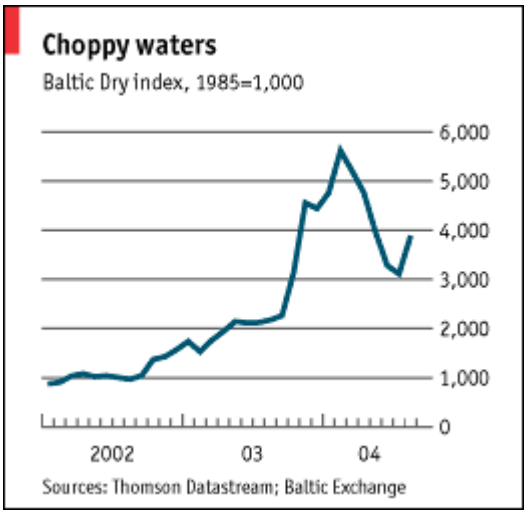
Jul 22nd 2004 | ATHENS AND LONDON
From The Economist print edition

Alamy

Things have been so good in the bulk-shipping market that it is hard to believe they can stay that way

BY THE pool, overlooking the wine-dark waters of the Aegean, the champagne flowed as the cream of the world's shipping industry gathered to watch the fireworks at one of many lavish parties thrown during Posidonia, a recent trade show. Thanks to the greatest boom the industry has seen since the closure of the Suez Canal in 1967, the mood was buoyant. But strong winds blew ash from the fireworks on to the guests, driving the many women in low-cut dresses to shelter under the jackets of obliging males.

No sooner was the party over than it seemed that the industry itself might have to run for cover, as the price bubble that had seen bulk-shipping rates more than double since September 2003 suddenly lost air. Fears of a slowdown in China's economy, and a temporary ban on its imports of soya from Brazil, halved the Baltic dry-cargo index, which covers bulk-cargo rates on the world's 23 busiest sea routes. Rates have since recovered somewhat (see chart), but worries abound that a more fundamental correction in rates may be coming soon.



Now is clearly a moment to keep a close eye on the behaviour of the Greeks, who—despite departures from the business of the heirs of Aristotle Onassis and, late last year, those of Stavros Niarchos—remain the savviest in the industry. Greece, a country of some 11m people, controls by far the biggest share—nearly 20%—of the world's merchant fleet by tonnage, even if many Greek ships fly flags of convenience. The Greeks specialise in oil tankers and carriers that transport bulk commodities.

According to Martin Stopford, an economist with Clarksons, the world's largest shipbroker, the secret of the Greek success is not, as you might expect, that Greeks are good at running ships. They leave the grind of finding cargoes to specialists: they excel, instead, at managing risk. The Greek shipping fortunes are based on buying ships cheaply and selling them dear. They have an impressive record of spotting the tops and bottoms of the market.

Foolishness to the Greeks

That is in sharp contrast to certain other perennial investors in shipping: on the waterfront of Piraeus, where owners and their agents mingle, they say that, while God gave the Saudi Arabians oil, he fortunately gave the Greeks the Norwegians. Needless to say, Norwegians disagree. After all, the world's largest tanker owner is a Norwegian company. Nor is it just Norwegians who are the fall guys. The price of second-hand bulk carriers started to fall this spring as freight rates declined, catching out some firms. On July 21st, Jinhui, a Chinese shipping company listed in, er, Oslo, issued a profit warning for precisely that reason.

Greeks buy and sell ships far more often than others in the industry. *Naftiliaki*, a trade magazine, says that of 535 ship trades from January until mid-May 2004, 264 involved Greeks. Most of the 733 Greek shipowning firms are small, with only a few ships. But the industry is consolidating fast—which may limit the ability of firms to time the market so well in future (at investment vehicles such as hedge funds, bigger generally means worse). The 46 largest Greek shipping firms now control 70% of the fleet. Although the fleet has grown, the number of firms is down by 25% since 1998.

The past few years have also seen the emergence of the publicly-traded Greek shipping company, an idea that would have been anathema to the likes of Onassis and Niarchos, who had little time for the transparency or accountability involved in being public. It is still a comparatively limited phenomenon, but it involves some big companies. For instance, Tsakos Energy Navigation (TEN), a subsidiary of the second-largest Greek shipowning firm, is listed on the New York Stock Exchange.

Soon there may be many more, combining the trends of listing and consolidation, and increasing internationalisation—signs, perhaps, that the Greeks think the market is near a top. Another Greek shipping line already listed in New York is Stelmar, founded by Stelios Haji-Ioannou (of easyJet airline fame), and floated in 2001. This week it reported second-quarter profits that had swelled to $15.8m from $4.5m in the same period in 2003.

Mr Haji-Ioannou, who with his family owns 27% of Stelmar, is attacking its board for not letting shareholders consider a couple of takeover approaches. One is from OMI, an American shipping firm listed in New York; the other is from the GEM group, owned by the Greek Restis family and rumoured to be seeking a listing in New York. Argonaftis, the first shipping firm to float on the Athens stock exchange, announced in February that it would also get a New York listing.

The urge to go public has been accompanied by a move into market niches; TEN, for instance, signed a $170m contract to buy a liquefied natural gas carrier (LNG) in early June—a sector that the Greeks have historically steered clear of, but which is now starting to boom. Because the LNG trade is expected to grow significantly in the next decade, many more ships are being built. This is a niche once dominated by energy groups themselves and shipping companies from big oil-importing countries such as Japan: now everybody is piling in, perhaps over-enthusiastically.

As well as becoming more diversified, risks are also being managed by making the Greek fleet younger (and thus in better condition)—the average age of a Greek ship is now 16.8 years, down from a bit over 20 years in 2000. But the Greeks, who traditionally trade only second-hand ships, have now placed orders for new vessels, taking them into new risk territory.

One side-effect of the increase in transparency has been to attract more outside investors into the industry. Traditionally, shipping finance came from plain vanilla bank loans, secured against ships. Bankers such as Royal Bank of Scotland are still prominent on the Piraeus waterfront, but new sources of finance are emerging. Financial instruments, such as asset-backed securities, are increasingly popular, especially in Germany, where investors (chasing a local tax break) have a lamentable habit of entering a market just as it becomes a bubble. According to *Lloyd's Shipping Economist*, such new sources now account for 60% of global ship-financing.

The most dramatic growth has been in shipping futures, which allow shipping companies to lay off risks. The most popular futures are forward freight agreements (FFAs) to deliver goods on a particular route at some point in the future. They have grown, in the past year, to be roughly the size of the physical market, according to Bill Lines of the Baltic Exchange, a shipping bazaar in London that sells FFAs. Many in the industry have been suspicious of such futures, because they have been averse to hedging their bets—risk-taking is, after all, part of the game—and averse to complicated financial instruments that they do not really understand.

But, says Mr Lines, the desire of outsiders to get into a booming ship industry has fed the growth of futures. In September 2003, the Baltic Exchange launched a “paper ships” index, which trades on the future cost of ships themselves, rather than future freight rates and, this autumn, they plan to launch a “demolition assessment” index, which will trade on the future scrap value of ships. The International Maritime Exchange, in Oslo, a competitor, estimates that the futures market will grow by another 80% by the end of 2004.

More use of hedging should, in theory, reduce the volatility of shipping rates, and thus mean smaller swings between market peaks and troughs. That would limit the ability of Greek investors to make a killing by timing their purchases and sales. On the other hand, they will see opportunity aplenty in the rush of new, inexperienced money into the industry—especially if they suspect that prices could once again crash. Beware Greeks bearing ships?

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America's ports

Congested

Jul 22nd 2004 | NEW YORK
From The Economist print edition

Can America keep the goods flowing to Wal-Mart?

MID-JULY marks the start of peak season for the Californian ports of Long Beach and Los Angeles, as America's retailers stock up for the back-to-school and Christmas shopping seasons. Peak season means queues in the harbour, delays at the dock, congestion on the freeways, and delayed trains carrying containers inland. Last year was bad. This year will be worse. Traffic through the two ports will grow by 11.6% in 2004, according to the Los Angeles County Economic Development Corporation. By 2006, warned the corporation in a recent report, there will be “gridlock”.

That would be bad for America and those who supply it. Together, the ports of Los Angeles and Long Beach handle one-third of the 25m-odd containers shipped to America every year. The growth in container traffic in the 1990s powered America's booming economy as retailers such as Wal-Mart bought goods from China and manufacturers such as Dell sourced parts from Asia for assembly in America. A brief strike by west-coast dock workers in 2002 caused logjams that threatened to push the economy back into recession.

Happily, further north up the west coast, the port of Tacoma has begun a five-year, $321m expansion to service more of the Chinese container trade. In Canada, the port of Prince Rupert is about to announce a deal with an international terminal operator to invest several hundred million Canadian dollars to allow its rudimentary facilities to handle Asian container trade, says the port's chief executive, Don Krusel. Even neglected east-coast and Gulf-of-Mexico ports are getting hasty face-lifts. Wal-Mart is building huge new distribution centres in Houston, Charleston and other less-used gateways. The port of Mobile in Alabama is investing $300m to handle container traffic from Asia. “If you had told me five years ago that the strategy for this port should be Asia traffic, I would have said you've lost your mind,” says the port's boss, James Lyons.

Yet some beneficiaries of the congestion in California are themselves becoming jammed up. CN Rail, a Canadian rail operator, recently began rationing its service out of the port of Vancouver. The route to Alabama, Houston and America's east-coast ports runs through the Panama Canal, which is also now badly congested. Panama may soon decide to develop the canal for more traffic. But the work could take ten years.

More radical solutions may be needed. According to the Boston Consulting Group (BCG), shipping times from Asia to America are now long and unpredictable, hampering just-in-time management. Toyota told BCG that shipping car engines from Nagoya to Chicago can take anywhere between 26 and 37 days. Increasingly, firms are shipping more valuable items via plane, says Pat Byrne, the head of global supply-chain management at Accenture, a consultancy. Some manufacturers and retailers should be willing to pay a premium for a shipping service that guarantees fast, end-to-end delivery, says George Stalk of BCG. Mr Krusel hopes to put together such a service through Prince Rupert, via rail, to Chicago. That will require a change in thinking. Instead of rationing its services, CN Rail should be auctioning them on eBay, says Mr Stalk.

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Microsoft's cash bonanza

An end to growth?

Jul 22nd 2004 | SAN FRANCISCO
From The Economist print edition

Microsoft returns money to investors, and settles for a duller future

THERE is a point at which hoarding money becomes embarrassing, especially if the world considers you a monopolist. Microsoft, which grew into the world's largest software company through the dominance of Windows, its computer-operating system, and which has been generating cash at the rate of $1 billion a month, passed that point years ago. On July 20th, it finally addressed the issue.

Its solution was to give back to its shareholders, in various forms, an unprecedented $75 billion. One dollop, to the tune of $32 billion, will be a one-time dividend to be paid in December. Another will be share buy-backs worth $30 billion over four years. The third will be a doubling of Microsoft's ongoing dividend to 32 cents a share annually, payable in quarterly instalments. Not bad for a company that has not even turned 30 yet, and that only declared its first dividend in January 2003.

The decision is impressive for the mature analysis by Microsoft of its role in its industry and the prospects for the future that it implies. Bill Gates, Microsoft's chairman and main owner (his personal dividend in December will be $3 billion), and Steve Ballmer, the chief executive ($1.2 billion), could have acted differently.

One option was to become ever more aggressive empire-builders, as so many bosses do, and make huge acquisitions. That was certainly a temptation—Microsoft recently had talks with SAP, the largest German software firm and the world leader in enterprise-application programmes. But this would ultimately have been bad for business, since Microsoft has and needs alliances with SAP's rivals. And it would probably have been blocked by trustbusters—so, too, most other potential acquisitions on that scale.

Messrs Gates and Ballmer could also have chosen to put their money where their rhetoric is, by ploughing it back into research and innovation. Microsoft has one of the largest research budgets in the world, and will continue to have even after its cash reimbursements to owners. But it also has one of the worst records when it comes to the efficiency of its research dollars—ie, its actual record in innovation. Its success has overwhelmingly been due to developing copy-cat technologies and paying top dollar to buy promising small firms. Microsoft implicitly said as much this week, by letting its shareholders invest their cash elsewhere.

The two bosses could also have chosen to remain bullies. Their official reason for building up a cash hoard in the first place was to create a reserve for Microsoft's legal battles, all stemming from its alleged monopolistic abuses. Instead, Microsoft appears genuinely to have changed tack. In the past year and a half, it has settled most of the class-action lawsuits against it in America's states and the biggest private lawsuits—with AOL Time Warner and Sun Microsystems—as well as a lot of patent litigation. The European Commission's antitrust case is the only serious outstanding threat, but, generally, Microsoft seems resolved to play nice.

So Mr Ballmer these days increasingly talks in much the same way as, say, a water-company boss. Sure, there are strategic threats facing Microsoft—open-source software and Google's superior search technology, in particular—but when Mr Ballmer sent an e-mail to employees recently, it was about cost-cutting. Microsoft's announcement this week had the same air of dull maturity. There was something for everyone—the remaining “growth” investors, who want capital gains rather than income, get the share buy-backs, while the growing number of “value” investors get higher dividends, just in time for George Bush's dividend-tax cuts. It is time to abandon, finally, the description of Microsoft as a gee-whiz tech stock. The reality is that the firm is now a utility, whose shares are probably safe for widows and orphans.

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Liquid crystal displays

The big picture

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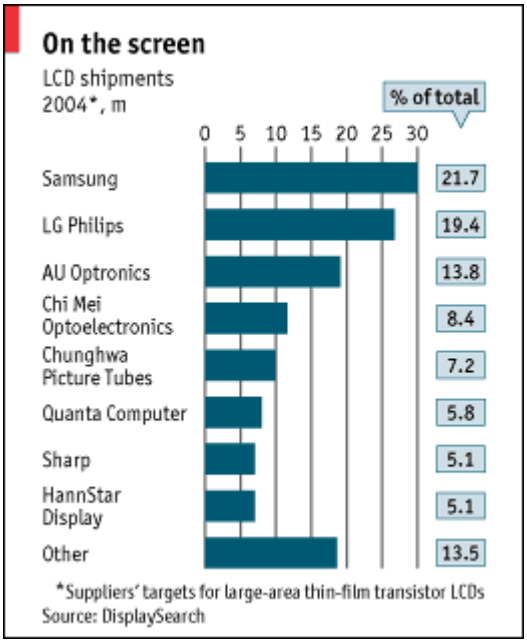
From The Economist print edition

Lots more capacity means lower prices for flat screens

EVERYONE expects the market to be huge. Yet an initial public offering this week by LG Philips was scaled down because of investor worries. The joint venture between South Korea's LG Electronics and Philips of the Netherlands is the world's second-biggest manufacturer of liquid crystal displays (LCDs), which are set to become as ubiquitous in electronic products as the microchip. And therein lies the problem: like chipmaking, LCDs could become another roller-coaster industry.

The joint-listing in Seoul and New York of LG Philips was cut in value to allay fears of a coming production glut. Indeed, LG Philips will use the $1 billion or so from its listing to expand production. And Samsung Electronics, the market leader (see chart), has just opened a massive plant in South Korea in an alliance with its arch-rival, Japan's Sony. Other manufacturers also have big ambitions.



This is reminiscent of the chip business. During periods of high demand, chipmakers invest heavily in expensive new plants. This drives down prices and profits until the industry shrinks. When demand grows again, the process repeats itself.

Like microchips, LCDs are made in costly, ultra-clean factories. They are a sandwich of liquid crystal between sheets of thin, but strong glass. With existing factories struggling to meet demand, LCDs are very profitable. On July 19th, LG Electronics said its net profit in the second-quarter soared by 85% compared with the same period a year ago, with strong sales of mobile phones and flat screens. LCD production also helped Samsung nearly triple its second-quarter net profit.

Flat screens are appearing in an increasing number of products, from computer screens to mobile phones, games machines, cameras and televisions. But with record spending this year on new and more efficient LCD production plants, a surplus of capacity could emerge next year, reckons DisplaySearch, a market-research firm. Although it believes that the impact of that surplus could be limited by shortages of other screen components, DisplaySearch expects profit margins to be squeezed as LCD prices fall.

“There is no doubt that pricing pressure will intensify as new factories come on line,” says Katsuhiko Machida, the president of Japan's Sharp. But price cuts will help to boost demand further. Flat screens are becoming common in desktop PCs. Next will be TVs. Today, a big wide-screen LCD television (one of the most profitable parts of the business) can cost more than $3,000. In about a year, around $1,000 could be wiped off that price.

Increased demand and more efficient plants could mean that profit margins start to recover in 2006—but that could tempt firms to invest in still more LCD plants; Samsung and Sony are already talking about a second one. Most production is in South Korea, Taiwan or Japan, and China is already building two LCD factories.

Booming sales of liquid crystal are helping Germany's Merck offset weaker pharmaceutical profits. America's Corning sees huge demand for its special glass, but is wary about being caught in a bubble. It is still recovering from betting big on a boom in optical-fibre communications equipment that quickly

collapsed.

Unlike telecoms equipment, demand for flat screens comes from many different industries, and so should be less volatile. And product cycles look like lasting longer for LCDs than for microchips. Yet one reason why Sony sought a joint-venture with Samsung, a firm that has rapidly eclipsed it in consumer electronics, is to protect itself from cyclical risk. The product is flat, but the road ahead may be bumpy.

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Pinault-Printemps-Redoute

Gucci's new look

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PPR tries to reinvent itself

“JE NE regrette rien,” says a cartoon in the Paris office of Serge Weinberg, boss of Pinault-Printemps-Redoute (PPR). Despite many disasters during the group's slow takeover of Gucci, Mr Weinberg admits to no regrets about buying the Italian luxury group. He is convinced that Gucci will shine as part of what he calls the “new PPR”. Investors are sceptical.

The group is a mixed bag, made up of disparate businesses also including Redcats, a mail-order firm; Conforama, a retailer of discounted household goods; Fnac, a chain of shops for books and music; Rexel, a maker of electrical equipment; and CFAO, an African conglomerate that mostly sells cars. On July 20th, PPR reported a 7.4% drop in sales in the first half of the year. Buying out Gucci's minority shareholders in May left the group with estimated debts of €7.8 billion ($9 billion). Many of Gucci's leading lights have quit.

Mr Weinberg blames the lower sales on the disposal last year of assets, including an office-equipment firm, that did not fit into the retail-and-luxury empire he is trying to craft. This year he plans to sell Rexel to reduce debt. But Conforama, Redcats, Fnac and CFAO are not, he says, for sale.

Exactly how this makes PPR more coherent is hard to see. But Mr Weinberg says that the common denominator is a focus on the individual customer. He says there are synergies between, for instance, PPR's gift-voucher business—the biggest in France—and Printemps, a chain of department stores. But analysts say that even in its new incarnation, those synergies are hard to spot. And worse, some of the group's businesses seem to be trying to steal sales from each other: Redcats is a competitor of Printemps, and Fnac is snatching business from Conforama.

The big test of Mr Weinberg's strategy is Gucci. The brand still seems to be thriving. After rising by under 5% between February and April, Gucci's rate of growth of sales reached double digits in May and June. However, there are signs that many Gucci insiders do not believe in the new PPR. Since Tom Ford, Gucci's creative director, and Domenico De Sole, its chief executive, left in April many others have followed. Mr Weinberg says that some people did not fit into the new PPR. But the jury is still out on the new management and design team. Robert Polet, a former Unilever manager, started as Gucci's chief executive on July 1st. He will produce a three-year plan for the group by the end of the year. John Ray and Alessandra Facchinetti, the design duo replacing Mr Ford, lack star appeal. But then Mr Ford was once an unknown too. The trade press has been kind to Mr Ray's first menswear collection, seen last month in Milan. Ms Facchinetti will show her first line of women's clothes in September.

Financial markets remain uncertain about what to make of PPR and whether or not it is “new”. The main source of confusion is its lack of focus. Analysts at J.P. Morgan think the group is undervalued compared with others in the luxury-goods sector. But analysts at another big bank, Merrill Lynch, say its shares are expensive as a retail stock. The uncertainty could evaporate if PPR were to get out of retailing, as some people predict it might. But until that happens, it remains a muddle.

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The Mannesmann trial

Not guilty

Jul 22nd 2004 | FRANKFURT
From The Economist print edition

Now Germany's executives must improve their battered image

AP

Relief for Esser and Ackermann

A COURT in Dusseldorf acquitted all six defendants on July 22nd at the end of the Mannesmann trial—the most spectacular in German corporate history. Yet the furious debate about corporate governance that the trial unleashed, particularly about Germany's two-tier board structure and executive pay, will continue. Indeed, academics and politicians trumpeting their views before and during the six-month trial had obstructed proper legal processes, said the judge.

The six defendants—including a supervisory board member, Josef Ackermann, chief executive of Deutsche Bank—were accused of committing or abetting a breach of trust relating to bonuses paid to chief executive Klaus Esser and other executives after the sale of Mannesmann to Vodafone in 2000.

The trial showed Germany's two-tier board system at its worst: a sloppy supervisory board, waving through unusually high bonuses that bore little relation to past performance, and gave no incentive to better performance given that the firm had already been sold.

Germany's boards are in conflict with America's Sarbanes-Oxley act. Despite some recent concessions, this may cause problems for German firms listing there. German boards are also under fire in Brussels. EU officials object, among other things, that executives do not wait long enough after retiring before joining the supervisory board of their firm.

The Mannesmann affair became a glaring example, to the public, of the executive greed thought to be invading European boardrooms from across the Atlantic. Public unease has been heightened recently by several high-profile battles between the managers of some big German firms and unions and workers' representatives over cost-cutting plans.

DaimlerChrysler executives have volunteered to take a 10% cut in pay, worth about €5m ($6.1m), in a bid to persuade workers at a plant in Sindelfingen to accept a loss of privileges and free time that would save €500m a year. Is the executive pay-cut becoming a trend in Germany? Other boards have opted recently to share some of the pain experienced by workers, including those at Lufthansa and Deutsche Telekom. Opel and VW are expected to do so soon. Although that may make bosses a little more popular in Germany, the trend is not thought likely, alas, to cross the Atlantic to over-paid executives in America.

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Indian business

Tata for now

Jul 22nd 2004 | DELHI
From The Economist print edition

A record-breaking flotation

Reuters

A happy Tata

TATA, one of India's two largest and most widely diversified business groups, has—after much dithering—decided to launch its software gem, Tata Consultancy Services (TCS), on the stockmarket. Only 14% of the firm's shares are being sold on July 29th. But, with a price band of Rs775-900 ($16.80-19.50) a share, this will be the most valuable share issue yet by a private firm in India, likely to raise over $1 billion and to give a boost, at home and abroad, to the image both of TCS and of the Tata group.

Ratan Tata (pictured), the group's chairman, says that the main reason to float TCS is to realise growth that, inside the group, would be constrained. As Gartner, a research firm, put it earlier this month, the hope is that TCS will stop being a “sleeping giant” and instead become more dynamic and internationally significant. Executives are coy about how that dynamism might emerge, but S. Ramadorai, TCS's chief executive, says that “we will be more free to go for mergers and acquisitions and to take care of employees with stock options.”

Founded in 1968, TCS has long been a leader in the development of India's booming information technology (IT) industry. Indeed, it now claims to be Asia's largest IT company, with sales in the latest financial year of $1.5 billion and 28,000 employees of 30 nationalities working in 32 countries. They seem to like working for TCS: it has an unusually low (by Indian standards) employee attrition rate of about 6.5% a year. It pioneered offshore operations when it began working in America in 1973 and now offers services to firms spanning insurance, telecoms, retail and transport. Even so, it has been outshone by the now globally-familiar Indian brands of Infosys and Wipro. Those two rivals, already public companies, are often assumed to be the industry leaders. But in the latest financial year, TCS's software and services exports were $1.2 billion, compared with Infosys's $1 billion and Wipro's $854m, according to NASSCOM, a trade association.

With clear advantages to be gained from going public, analysts have frequently questioned why Mr Tata did not take the plunge earlier—especially during the late 1990s software boom when the firm's sales were growing at nearly 60% a year, twice the current rate. One concern was that flotation would upset the balance of the group: TCS's expected market capitalisation will be nearly four times that of Tata Motors, one of Tata's leading five companies. But, with the benefit of hindsight, Ishaat Hussain, Tata's finance director, rationalises the delay: Indian tax reforms since the late 1990s have halved the corporation tax that the group must pay on the float and eliminated gift tax. The timing also fits in with Mr Tata's new focus on international expansion. The group recently bought a Daewoo truck plant in South Korea, having earlier acquired Britain's Tetley Tea—small deals by international standards, but significant as Indian industry begins to look abroad.

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Corporate tax in the EU

Tax wars

Jul 22nd 2004 | BRUSSELS AND WARSAW
From The Economist print edition

New versus old Europe

THE battle lines over corporation tax in the European Union (EU) are moving east. On one side is a pack of countries led by France and Germany which recently launched a joint initiative to harmonise the tax base for corporate taxes in the EU as a prelude to establishing minimum rates. On the other are the eight new EU members from central and eastern Europe that have joined Britain and Ireland in standing up for tax competition. Having cut their business taxes sharply to lure foreign direct investment, the newcomers are scornful of plans to set minimum (meaning higher for them) rates. Poland has turned the dispute into a national crusade, fuelled by fears that Germany and France will make disbursement of EU development aid to new members conditional on them raising their tax rates.

While this seems unlikely to happen anytime soon, as it would have to be agreed unanimously by European leaders, it is easy to see why the French and Germans are keen on tax harmonisation. The new entrants have widened the gulf between high and low business-tax regimes in the EU. According to the latest global survey of corporate taxes by KPMG, an accounting firm, the new members are leading the tax-cutting drive. Poland reduced its basic rate this year from 27% to 19%, and Slovakia from 25% to 19%. Hungary has a 16% rate, while Estonia does not even levy corporate tax on reinvested earnings. By contrast, Germany levies a 38.3% rate—at least on those firms that cannot avoid paying it—and France 34.3%.

Germany has most to fear from the central Europeans. According to the German chambers of commerce, nearly one-quarter of 10,000 industrial firms surveyed plan to shift parts of their operations abroad. While high labour costs top their list of reasons for relocating—central European wages are only 10-15% of German wages—high taxes come a close second. Siemens, an engineering giant, recently clinched a deal with its unions after warning that it might move part of its production of phones to Hungary, while Bosch, another big German firm, used similar tactics this week to extend working hours at a car-parts factory in France.

In pushing for harmonised tax rates, France and Germany hope to make central Europe less competitive—in stark contrast to the approach taken by Austria, which will trim its corporate-tax rate next year to 25%. Yet tax rates are not everything when it comes to business location: when Hyundai, a South Korean carmaker, scoured central Europe earlier this year for the best spot to build its European car plant, it chose Slovakia largely because of its good infrastructure; Poland, the runner-up, lost out because of its decrepit roads. “A 19% corporate tax [in itself] won't solve our infrastructure problems,” admits Sebastian Mikosz, the deputy head of Poland's inward investment agency.

As they fight to keep corporate-tax rates low, the central Europeans can count on strong support from Britain, which ensured at last month's EU summit that national vetoes were kept on tax. But France and Germany are pursuing their initiative through the EU's rules on “enhanced cooperation”. These let small groups of like-minded member states work together more closely in certain areas. They appear to be making headway. The European Commission is drumming up support among EU governments for a harmonised tax base for corporate taxes—currently defined differently in each member state—as a way to cut red tape and boost transparency. Even most central European governments are keen on that idea—as long as it does not lead to common rates.

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Face value

Up, up and away

Jul 22nd 2004
From The Economist print edition

BAA

Tony Douglas is redefining how to run massive construction projects

TO THE west of London, crammed between Europe's busiest stretch of motorway and its busiest international airport, is a vast building site. In the midst of a landscape of mud and men rises a vast glass-fronted box that will soon be Britain's largest free-standing building. This is Heathrow airport's fifth terminal, authorised in 2001 after a long and bitter battle with environmentalists, and destined to cater for 30m passengers a year when it opens in March 2008. It will include not just a terminal that will be the equivalent of Europe's fourth-largest airport in its own right, but also new road, rail and underground links.

Big construction projects are always tricky: just look at the mess in Athens, site of Europe's other giant construction project. Airports bring special problems: tricky building techniques, and the need to mesh with other transport links and to install sophisticated electronics to handle passengers and baggage. In Paris, Charles de Gaulle airport's new terminal went hideously wrong.

The man in charge of this logistical nightmare, Tony Douglas, looks alarmingly young at 41. Unpromisingly, he comes from a commercial, not a construction background. He came to BAA (a privatised firm, formerly known as British Airports Authority, that owns and manages Heathrow and six other British airports) via stints in the car and the commercial-jet industries and at Kenwood, a domestic-appliance firm. For three years, he ran BAA'ssupply chain. He took over T5 (as everyone calls it) after the last boss left suddenly. The risks attached to this vast project are so great that BAA has been forced to tackle it in novel ways. If this giant endeavour is not completed on time and on budget, it could take the whole company down.

First, BAA is unusual in running the project itself. Mr Douglas insists that outsourcing to a big project-management group such as Bechtel would cost more, not less. Second, as much as possible of the construction—including 60% of all the mechanical and electrical systems—is taking place off-site. This reflects the site's physical constraints: it has only one entry point, through which a 40-foot (12-metre) load must move every 30 seconds for a period of four years. “If you get the choreography wrong, it makes London's motorways on a Friday night look tame,” says Mr Douglas. And the site has capacity for no more than two days of inventory. The solution, he says, has been some “car-industry logistics”—a large investment in computing and training that no individual supplier would have made. The consequence has been fewer people on the site. And factories are safer places to assemble than building sites. T5's project director, Andrew Wolstenholme, boasts that the site has not had a single fatality so far.

But the biggest novelty is the T5 Agreement. This is a contract with the project's main suppliers that

aims to minimise the conflicts and cost-cuttings that usually plague big building works. The idea draws on “Rethinking Construction”, a paper written six years ago by Sir John Egan, BAA's former boss, as part of an attempt by the British government to dig the construction industry out of its poor safety and productivity performance.

Usually, contractors hold a beauty parade, and take on the suppliers who bid lowest. The suppliers rely on glitches and delays to bump up the cost. Every time something goes wrong, legal haggling breaks out among suppliers and between them and the contractor, work shuts down for weeks on end and a huge slice of the cost ends up in the pockets of lawyers. Once the construction is late, time runs short for the final installation and testing of the electronic systems—which has made so many new airports a nightmare for passengers and staff alike.

Under the T5 Agreement, BAA carries the risk, putting a precautionary sum into a pot that will be shared out among all its suppliers if the project finishes on time and budget. The site's three largest contractors were simply not large enough to carry all the risk themselves. The effect, says Mr Douglas, has been to change the whole pace and culture of the project, allowing teams of employees from different suppliers to work together and to concentrate on getting things done, not on squabbling.

As one example, he cites the elegant steel air-traffic control tower that is rising 87 metres (285 feet) into the sky above the terminal building. When the first two sections were engineered, they were out by 9mm (0.4 inches). “Normally”, says Mr Douglas, “the manufacturers would have blamed the structural engineers, who would have blamed the steel fabricator.” At first, they did just that. Then Mr Douglas said, “Guys, this is my problem,” and sent them off to find a collective solution.

A second demonstration of the contract's power is the installation of the terminal building's roof sections. Before the task began, BAA took the builders up to Yorkshire and spent £4m ($7m) on a practice run, raising and lowering roof sections half a dozen times (and once in a stiff gale) to make sure that the job ran smoothly. With conventional contracts, argues Mr Douglas, nobody would have invested so much in risk mitigation.

New departures

As a result, BAA hopes never to have a Charles de Gaulle on its hands. Passing risk to suppliers chosen by beauty parade, as in Paris, increases the risk of corner-cutting. And, as T5's suppliers are partners who will work on future projects, they have an incentive to do a good job. If something goes wrong later, there may be a debate about negligence, but not about which supplier is to blame. The result, says Mr Douglas, is that Swiss Re, a big insurance firm, was willing to insure the T5 project—the first big British construction project it had covered in a decade.

If T5 works so well, why isn't BAA building airports elsewhere? A bigger priority, at least for now, is to get permission to build an additional runway at Stansted, London's third airport. But ultimately, success will surely point to a spin-off business that can build other big projects safely and cheaply.

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Correction: EasyJet

Jul 22nd 2004
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EasyJet has asked us to point out that the comment that Stelios Haji-Ioannou, its founder, might consider taking the firm private, made in our Special report on low-cost airlines (July 10th), came from a spokesman for easyGroup, a separate company (and the main shareholder in easyJet), not from easyJet itself. Mr Haji-Ioannou has since denied that he has any such plans.

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Volatility

An eerie calm

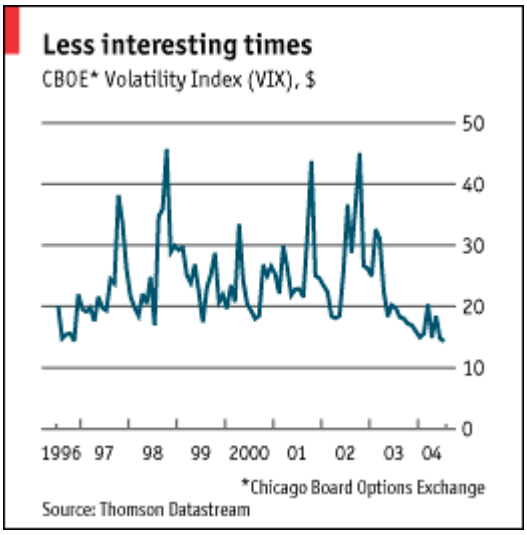
Jul 22nd 2004
From The Economist print edition

Alamy

The fact that implied—ie, expected—volatility in financial markets is so low should give investors everywhere pause for thought

THERE are few beasts in the financial jungle more curious than the market in uncertainty. Traders buy and sell uncertainty as readily as if it were something tangible, like pork bellies or Treasury bonds. Strange though it may seem, it is no exaggeration to say that the price of just about every risky asset in the world depends in part on investors' perceptions about the price of uncertainty. It is precisely because investors appear so certain about the future that the prices of so many assets are now so high. The opposite holds too, of course. If investors became less certain, those prices would fall.

In financial markets, uncertainty goes under the name of volatility—how much asset prices are moving around. One popular measure of stockmarket volatility, the Chicago Board Options Exchange's VIX index, has fallen to its lowest since 1996 (see chart). In August 2002, it soared to 45; this year it has mostly traded between 14 and 16. Interest-rate volatility has also fallen sharply, though not as far.



What most concerns traders and investors is not how much assets have moved in the past, but how much they are expected to do so. In the jargon, this is called implied volatility. It is the number that traders plug into the models they use to price options: the VIX, for example, is an index of implied volatility of options on America's S&P 500 stockmarket index.

Lately, investors in risky assets of all sorts have been selling options. Whether they think of it this way or not, they have been selling volatility too. “The whole world is short volatility,” says David Goldman, the head of fixed-income research at Banc of America Securities, with a flourish. As volatility has fallen, so investors have raked in profits on those risky assets.

The price of uncertainty

The market for traded uncertainty really came into being in 1973, with the publication of a now-famous

paper by Myron Scholes and Fischer Black. Before then, pricing options had been something of a guess. The problem was putting a price on a contingent liability—something that would be exercised only if it was in the buyer's interest to do so. The paper produced a neat solution, which has been developed over the years. All the seller needed to do was to put in a few variables, and the Black-Scholes model, via some ferocious maths, churned out an answer. Implied volatility is the most important of these inputs.

According to the latest survey by the Bank for International Settlements, at the end of last year there were roughly $50 trillion-worth of options outstanding in the world. Vast though this figure is, the true total is many times greater, because many assets have options embedded in them, even if their presence is not always plain. For this reason, understanding volatility is crucial to understanding movements in the prices of many securities.

Some of these options that are embedded in securities are more obvious than others. Take the market for mortgage-backed securities (MBSs), or bundles of mortgages, which in America is now bigger than the Treasury market. Sellers of American fixed-rate mortgages, which the buyer can repay at any time, have, in effect, sold the holder an option to redeem. The price of that embedded option is thus vital for putting a price on an MBS.

Similarly, anyone buying a firm's debt takes the risk that they will not be repaid—and is thus, in essence, selling the firm an option to default. The extra yield above that on government bonds is the premium that investors demand for that risk: the greater the risk of default, the higher the spread. The same applies to government bonds, which is why emerging-market debt has historically traded at a discount to rich-country debt. Current tight spreads imply that investors think that companies and emerging-market governments are less likely than usual to default.

Investment banks have spent many millions of dollars trying to tie theory to practice. They started in the 1980s with MBSs and in recent years have tried to do the same with corporate bonds. Many investment banks and even the big rating agencies now use signals from the stockmarket as a guide to the riskiness of a company's debt. The implied volatility of options on a company's shares, for instance, can be viewed as the cost of insurance against the worsening of a firm's prospects, as measured by its share price.

When equity prices are falling and the cost of that insurance is high, spreads widen. But as equities have climbed since the dog days of autumn 2002, and implied volatility has fallen to a third of its level then, prices of corporate bonds and other risky assets have risen dramatically.

The question, of course, is whether the price of uncertainty, particularly in equity markets, will remain as low as it is now. Markets have become less volatile than they were between the spring of 2000 and the autumn of 2002. Moreover, firms in many countries, particularly America, are swimming in record profits, and the longer the global recovery continues, the more convinced investors become that the good times will continue. Both make for more certain share prices.

But the steep fall in implied volatility is nonetheless a bit odd. There are, after all, many things that could go wrong for financial markets: tensions are still bad in the Middle East; the oil price is again over $40; and the Federal Reserve is raising interest rates when American households are more indebted than they have ever been.

One reason why volatility is so low is that there are so many sellers of equity options—sellers, as it were, of insurance against falls in share prices. Their sales have driven down the price of implied volatility. In the absence of nasty surprises, selling options is a splendid way of making money, and buying them a wonderful way of losing it. This is why, in the absence of decent returns elsewhere, investment banks and fund managers of every hue, hedge funds not least, have been selling them with a will. It is, if you like, another consequence of the world's still-low interest rates.

It is also risky; sometimes, very risky. Many financial catastrophes have been caused by selling options. The most famous came in 1995, when a rising star at a British bank sold 34,000 options on Japan's Nikkei 225, driving implied volatility on the world's second-biggest stockmarket from 22% to 11%. But share prices plummeted after the Kobe earthquake, volatility soared, and the bank went bust. The man's name was Nick Leeson and the bank was called Barings.

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European exchanges

Alpine attraction

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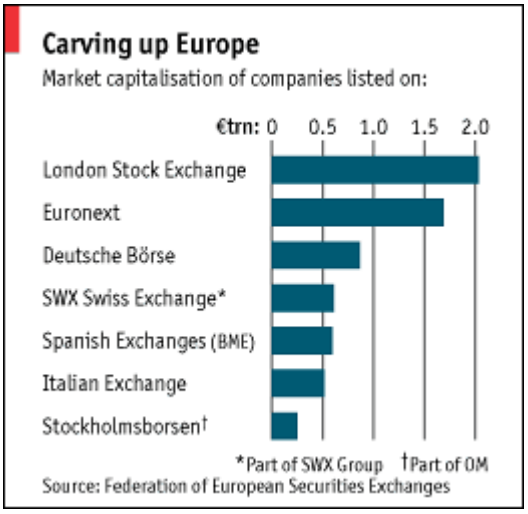
From The Economist print edition

Deutsche Börse's approach to SWX may herald a new round of consolidation



AFTER a lull, Europe's stock exchanges are courting each other again. Deutsche Börse—which runs the Frankfurt market, Europe's third-largest, and does much more besides—has made the opening move. This week it said it had approached SWX Group, operator of the Swiss stock exchange, about "intensifying existing co-operation". That smells of a possible merger. The Swiss group's board and owners will now consider whether to start talks. That could take several weeks, according to SWX.

What does Deutsche Börse want from the Swiss? A bigger market share in Europe, for one. The Swiss exchange and virt-x, its London-based electronic-trading subsidiary for blue chips, handle about 7% of Europe's equity trading. That fits well with the international ambitions of Werner Seifert, Deutsche Börse's chief executive, who even wants to change his firm's name to make it sound less German.

Mr Seifert has scoured the continent for mergers before. Four years ago he approached the London Stock Exchange (LSE). However, the deal was upset by a hostile bid for the LSE by Sweden's OM, which also ended in failure. SWX has long been in Deutsche Börse's sights, according to Richard Kilsby, a former vice-chairman of virt-x. But the fiercely independent Swiss have resisted giving up a prized national asset.

They may now be more approachable since some crossover has taken place between the exchanges. Reto Francioni, SWX's chairman, spent several years at Deutsche Börse. And each of the two exchanges owns half of Eurex, the world's largest derivatives exchange, although Deutsche Börse, which provides the clearing and settlement facilities, receives 80% of the revenue. Eurex has made some bold moves lately, venturing into America to take on Chicago's derivatives exchanges. These are resisting the threat, and Eurex has so far obtained only a tiny market share—although it said this week that traders had responded favourably to a fee cut. But Deutsche Börse may well want full control of Eurex, which accounts for more than a quarter of its revenues.

In any case, the drama in Switzerland may be a prelude to a larger battle. The ultimate target remains the LSE, says Ruben Lee of Oxford Finance Group, a consultancy. He thinks competition for the LSE could heat up over the next 18 months; the likely bidders are Deutsche Börse and Euronext, a firm formed from the Amsterdam, Brussels and Paris exchanges. British authorities, notes Mr Lee, are less insistent than continental Europeans on making sure their exchanges are owned by their nationals. London's derivatives exchange, Liffe, is already owned by Euronext. However it ends, Deutsche Börse's approach to SWX will not be the last word in European consolidation.

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Charles Schwab

Return of the king

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Can the founder fix the firm?

FOR a troubled company, what likelier saviour could there be than the man who built it? Fed up with falling margins and market share, the board of Charles Schwab, one of America's largest discount brokerages, ousted David Pottruck, the chief executive, on July 20th. His replacement will be none other than Charles Schwab, the firm's 66-year-old founder.

Schwab's woes predate the solo reign of Mr Pottruck, who was joint chief executive with Mr Schwab from 1998 to 2003 (since when Mr Schwab has remained chairman). The firm has strayed too far from its founding notion of cutting rates and wooing clients away from full-service firms such as Merrill Lynch, which worked well for much of Schwab's 30-year history. Based in San Francisco, the firm also helped lead the rush to internet trading, and successfully became a kind of supermarket for funds as well. Currently it holds close to $1 trillion in assets for its clients.

Then things went awry. As the technology bubble inflated, Schwab wandered from its core business. In 2000 it spent $2.7 billion to buy U.S. Trust, a specialist in private banking. But it soon found that the personal attention and other skills needed to cater to wealthier clients did not come easily. That year Schwab also dipped its toes into the active-trader market by snapping up CyberTrader, a day-trade firm. In 2003, hoping to break into institutional trading and research, Schwab took over part of Soundview, an investment bank.

So Schwab now occupies an uneasy middle ground: dearer than its discount rivals (until recent price cuts, Schwab's charges were three times Ameritrade's) and offering less service than the likes of Merrill Lynch. Its costs have ballooned, and clients have drifted away. In 2000, Schwab's daily trading revenue was about double Ameritrade's, according to Credit Suisse First Boston. Now Ameritrade has edged ahead, and E*Trade and TD Waterhouse are catching up. This week, Schwab said that its profits in the three months to June were 10% lower than a year before. Ameritrade's were up 25% and its margins are more than double Schwab's.

How is Mr Schwab—whose tenure is apparently permanent—to sort his firm out? Analysts at Bear Stearns muse that his return “could heighten speculation of a sale of the entire company.” Markets reacted well to the appointment. Schwab's sagging stock price rose by more than 6% on the day it was announced, despite hearing the bad earnings figures at the same time. Richard Repetto of Sandler O'Neill, an investment bank, says that the priority now should be getting back to core strengths of retail investing and asset accumulation. It might help to dump some of its hastily acquired assets. That would at least reduce the wage bill, which eats up more than 40% of revenue. (Bain, a consultancy, has been hired to cut costs.) Mr Schwab may find that turning a firm around is harder than starting one up.

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About sponsorship

American banks

Riggsmarole

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A venerable institution falls from grace and is taken over

AFTER years of unsuccessful attempts to prosecute Augusto Pinochet, former military dictator of Chile, for human-rights abuses during his 17-year rule, Chilean prosecutors have changed tack. On July 20th, armed with a report released last week by a committee of America's Senate, Chile launched its first formal probe into its ex-ruler's finances.

For one American bank as well as General Pinochet, the report made uncomfortable reading. It said that Riggs National, whose headquarters are in Washington, DC, had helped General Pinochet hide up to $8m. The senators also accused Riggs of shady dealings with diplomats in Saudi Arabia's embassy and the government of Equatorial Guinea. In May, regulators had fined the bank $25m for violating money-laundering regulations.

This marks a long fall from grace for the 168-year-old institution, which bankrolled the Alaska Purchase and held the accounts of Abraham Lincoln and Douglas MacArthur. Yet Riggs seems to have landed softly. On July 16th, PNC Financial, based in Pennsylvania and one of America's top 20 banks by assets, agreed to buy Riggs for $779m. At twice book value, this is cheaper than some recent deals—but not much cheaper, according to analysts at Lehman Brothers. Joseph Allbritton, until recently the bank's chairman and chief executive, has fared pretty well. He and his family own some 8m shares in Riggs and so stand to make over $100m from the sale, even though he was in charge for much of the time covered in the senators' report.

Whether PNC will fare as well is still an open question. True, there are quite a few pluses. Riggs, with $6 billion in assets and some 50 branches concentrated in and around Washington, serves one of the most affluent markets in America. The acquisition is consistent with PNC's strategy of expanding its network along the east coast. Last year, for example, it purchased United National, a New Jersey bank of a similar size to Riggs.

While both deals were bite-sized—the price of Riggs is only 5% of PNC's market capitalisation—most observers take them as a signal that PNC aims to stand its ground in the current wave of big-bank consolidation. Quite a few banks of its size are seen as prey, not hunters. For PNC, this is some change. Two years ago, it was scrutinised by bank regulators concerned about its risk and financial controls, and was thus seen as a takeover target. But it emerged bigger and better.

Although the purchase of Riggs fits PNC's strategy, it is far from certain to pay off. Riggs's branches are concentrated mostly in urban Washington, rather than the better-heeled, faster-growing suburbs in neighbouring Maryland and Virginia that are already crawling with bigger competitors, such as Wachovia and Bank of America. Questions also remain about how tarnished Riggs's franchise will have been by the recent scandals.

Then there may be a risk of future regulatory action or, possibly worse, big lawsuits. PNC maintains that it has protected itself contractually: it can walk away from the purchase if Riggs suffers a “material regulatory impairment” before the deal's close, expected in early 2005. It also plans to lop off Riggs's international and embassy businesses, the two units that are at the heart of all current investigations, or to shrink them severely.

Still, says David Spring of Fitch, a rating agency, the deal is “not a slam-dunk acquisition”. PNC will have to invest in training staff and installing new compliance systems. And, he adds, there is a risk that other infractions might come to light.

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Banking in India

Curious welcome

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The government wants foreign investment. Does the central bank?

IN BANKERS' eyes, an announcement this month by India's central bank, the Reserve Bank of India (RBI), has done the country no favours. To many, it looks hostile to foreign investment. Privately, both Indian and foreign bankers have criticised the proposals, because they broadly limit investors in Indian banks to stakes of between 5% and 10%—just when several banks need substantial amounts of fresh foreign capital and the new government, headed by Manmohan Singh, a former governor of the RBI, is keen to attract foreign direct investment.

HSBC, one of the world's biggest banks, has been unusually outspoken about the RBI's ideas. It has been in India for 150 years and its operations are among the biggest of any foreign bank. The RBI has already forced it to reduce a stake in UTI Bank, a newish, middle-sized institution, from 20% to 14.7%. This might now have to be cut further. David Eldon, HSBC's Asia chairman, bluntly said when visiting Mumbai earlier this month that “we prefer to invest in open markets”. He suggested that the RBI's moves seemed to compare unfavourably with developments in China and elsewhere.

The RBI insists that it is merely doing its duty, by trying to ensure that banking operations are run transparently and are controlled by reputable managements, without portfolio investors from either India or abroad holding dominant stakes. Usha Thorat, its chief regulator, says the aim is to bring Indian regulation into line with international practice. However, the RBI's method seems unduly restrictive. Some bankers in Mumbai suspect that its governor, Yaga Venugopal Reddy, is reflecting the views of leading figures in the industry who do not believe that Indian banking needs an influx of foreign involvement.

In March, before the recent general election, the then government raised the limit on foreign investors' share of Indian banks from 49% to 74%. It also told foreign banks they could operate in India in one of three ways. They could run branch networks, as 32 banks now do (Standard Chartered leads with 66 branches); they could hold up to 74% of an Indian bank; or they could set up new wholly-owned subsidiaries.

The RBI is due to issue regulatory guidelines on the implementation of this policy later this year. Meanwhile, on July 2nd it sent out a list of proposed restrictions for all private banks, which it had not discussed with the government and which sparked the current furore. Its proposal is that banks already operating in India, foreign or domestic, could hold stakes of at most 5% in other banks. Groups of investors could not go above 10%. Larger holdings would have to be reduced over three years, although the RBI is expected to waive the rule for investors with a strong regulatory record. Officials say, for example, that HDFC, one of India's most reputable finance groups, would be allowed to keep its current 24% stake in HDFC Bank, whereas other more family-based or remote stakeholders would have to come down to 5% or 10%.

However, the limit would not apply to foreign banks that do not already have operations in India, which could simply set up a new subsidiary. Another option is to follow the Netherlands' ING, which when taking over Vysya Bank, a small bank in Bangalore, folded its existing branch network into its new business. But there is still a question over HSBC, which has 35 branches in India and whose intentions with UTI Bank have never been entirely clear. HSBC insists that its stake, bought from Actis, a British venture-capital firm, is purely a portfolio investment, but it is widely assumed in Mumbai that it has—or had—ambitions to take the bank over eventually. Under the RBI's proposals, it would be asked by the central bank to restate its intentions and perhaps then reduce its 14.7% holding. This might reinforce worries about Mr Reddy's intentions.

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Italian banks

To err is human

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No contrition for mis-selling bonds

JOHN DRYDEN, a 17th-century English poet, wrote that repentance was the virtue of weak minds and the want of power to sin. Italian bankers would seem to agree. Most of them are not at all sorry for the damage caused by the sale of bonds that turned out to be rotten to many of their retail customers.

When Cirio, a food processor, collapsed last year, around 30,000 savers were left holding €1.1 billion ($1.2 billion) of its paper. About 100,000 small investors held €1.9 billion of Parmalat's bonds when the dairy group failed seven months ago. And 400,000 Italians were holding €14.7 billion of Argentina's bonds when that country defaulted in 2001. Although most of these unlucky savers had invested through bank branches, Maurizio Sella, chairman of the Italian Banking Association, carefully avoided admitting collective guilt when he addressed his members earlier this month, at their first annual meeting since the Parmalat scandal.

Italy's top bankers are ducking and weaving. Corrado Passera, managing director of Banca Intesa, Italy's biggest, recognises that his bank might have made mistakes, but it did not, he says, deliberately damage customers. “Nobody lost their house because of this,” he adds. To obtain redress, Banca Intesa's customers must, in effect, accuse the bank staff who sold them the bonds of improper practice.

At Sanpaolo IMI, only one-third of the 4,000 customers who are Cirio bondholders and one-tenth of the 20,000 Parmalat bondholders have decided to jump daunting administrative hurdles to seek compensation. Alfonso Iozzo, Sanpaolo IMI's managing director, sees a risk of moral hazard if customers were given blanket reimbursement. “People must learn to assess investments,” he says.

Other banks are equally reluctant to settle. Capitalia, the country's fourth biggest, is an exception. Almost all of its 3,800 customers who bought bonds in Cirio, Parmalat and Giacomelli, another distressed company, have been reimbursed, either fully or at 50%, depending on whether or not the bank played a part in placing the bonds. “Reputation is a bank's most important value. We wanted to settle quickly to keep our customers' trust,” says Matteo Arpe, Capitalia's managing director. Yet not even Mr Arpe admits that his bank mis-sold bonds.

Consob, the stockmarket regulator, is looking into the sales. It is worried about conflicts of interest, because banks paid by issuers to place bonds sold them to retail clients, and about banks' failure to explain the risks to investors. In the Cirio case, it inspected ten banks earlier this year. It then wrote to around 400 directors of banks, and to executives of ten, notifying them of violations of investor-protection regulations and inviting the bankers to put their side of the story.

Consob's verdicts are imminent. The finance ministry will then impose penalties, albeit modest ones, for any violations. After their summer holidays, bankers can expect more mail from Consob, this time about the Parmalat and Argentine bonds. Whether they repent or not, their customers are in no mood to forgive.

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Economics focus

It's not always good to talk

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Do communicative central banks make financial markets lazy?

LOCATED just a mile or two from Capitol Hill, the Federal Reserve stands far beyond legislators' political reaches. In 1978, a law sponsored by two such legislators, Hubert Humphrey and Augustus Hawkins, required the chairman of the Fed to travel the short distance from his office to the Hill twice a year to testify before Congress. The act expired four years ago. But these days, the chairman needs little persuasion to talk. Alan Greenspan's Humphrey-Hawkins testimony, as it is still called, delivered on July 20th and 21st, was his 24th speech of the year.

Mr Greenspan has spent much of this year preparing markets for higher interest rates. This week, he had little to add. Rates are on their way back to “neutral”, he confirmed, though he could not tell senators what that neutral rate might be. (We'll know it when we get there, he said.) He would move at a pace “likely to be measured.” But if that were not fast enough to safeguard price stability, he would move faster.

Central bankers were not always so happy to talk. Until February 1994, the Fed's rate decisions were not announced—let alone discussed publicly in advance—but had to be inferred from its operations in the markets. When, in 1975, this reticence was challenged under the Freedom of Information Act, the Fed spent six years defending its right to secrecy in court. As Marvin Goodfriend, an American economist, has put it, central bankers were anxious to cultivate their “monetary mystique”.

That mystique still appeals to some. In an interview with the *Wall Street Journal* published on July 15th, Tommaso Padoa-Schioppa, one of six members of the executive board of the European Central Bank, argued that central banks now talk too much. He gently mocked the Fed's pet phrases. Surely, it goes without saying that the Fed will be “measured”. (It could hardly act without measure.) And if it goes without saying, why say it?

Fedspeak is easy to mock. But it is now a truism that a central bank's words are as important as its actions. After all, a tweak in the federal funds rate counts for little by itself. It is only if the markets expect a succession of rate changes that mortgage rates, bond yields and equity prices will move in sympathy. Credible central banks steer such expectations by what they say.

Mr Padoa-Schioppa, however, thinks central banks are guilty of oversteering the markets. “The danger that I see is that the market becomes lazy,” he told the *Journal*. “If it is spoiled to the point that it is told everything in advance, it relies not on its own analysis, but on the analysis of the central bank.” He is not alone in this worry. The same argument is set forth, in equations, by Jeffrey Amato, of the Bank of International Settlements, Stephen Morris, of Yale University, and Hyun Song Shin, of the London School of Economics, in a number of recent papers*.

Beauty is truth, or conventional wisdom

Messrs Amato, Morris and Shin explain their argument by reviving Keynes's famous “beauty contest” analogy. In Keynes's day, newspapers invited readers to pick the six prettiest faces from 100 photographs. Readers won by picking the faces that “most nearly corresponded to the average preferences of the competitors as a whole”. Financial markets, Keynes argued, work in much the same way. An investor wins by anticipating which asset will become the popular choice. Like the readers of 1930s newspapers, speculators “devote [their] intelligences to anticipating what average opinion expects average opinion to be.”

How much easier the contest would be if some widely watched, widely respected authority figure offered his public judgment on the faces in the photographs, telling readers whom he deemed the prettiest. His judgment may or may not be sound. What counts is that everyone pays attention to what he has to say—and everyone knows everyone else is paying attention. For this reason if no other, his public judgment would lay down a marker around which average opinion could coalesce. Once the authority had spoken, it would take a brave reader to bet against his judgment—and a foolish one to expend much energy scouring the faces in the photographs himself, to form his own independent opinion of their fundamental attributes.

Messrs Amato, Morris and Shin worry that today's loquacious central banks play this role in the financial markets. Their public pronouncements on the state of the economy provide a rallying point for conventional wisdom. Central bankers no doubt offer genuine insight. But however sound as a guide to the underlying fundamentals, their pronouncements are even better as guides to what average opinion will be. As a result, traders give the opinions of central bankers undue weight, and skimp on their own independent assessments of the economy.

Errors, which creep into even the best central-bank analysis, are thus amplified, because they are not gainsaid. And if the analysis is not the best, it can steer expectations about the economy widely off the mark (as, for instance, if it legitimises “irrational exuberance” by heralding the dawn of a new economic age). Public pronouncements crowd out private opinions, and the market ceases to function as a way of aggregating and revealing diverse, private judgments of the world. The monetary authorities look to the markets to hold a mirror up to the economy, but what is reflected back is simply the bank's own prior beliefs.

Even if true, this is not a clinching argument for central banks' silence. As Messrs Humphrey and Hawkins believed, openness is the price of their political independence. Since they do not have to answer to voters, they must at least explain themselves to the public and their elected representatives. Central banks should keep talking. But the markets should not hang on their every word. Messrs Amato, Morris and Shin are right about that.

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* The most apposite, “Communication and Monetary Policy”, and others are available at www.nuff.ox.ac.uk/users/Shin/policy.htm

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Computing

Faster, cheaper, better

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The most super machines are getting even more super

SUPERCOMPUTING had its heyday in the 1980s. The field attracted many of the best minds in computer science, as start-ups and established companies vied for the prestige of creating the fastest computer in the world. Interest in these high-powered beasts waned in the 1990s, as computing talent was drawn to the internet. This has been changing in recent years. The ability to build powerful computers cheaply, combined with growing commercial demand for high-end computing power, is creating a renaissance in the field of supercomputing.

These days, it is not necessary to design and build a supercomputer from scratch. Existing commercial components can be cheaply bolted together to create a very powerful system. Last year, a group at America's National Centre for Supercomputing Applications, in Illinois, built a supercomputer out of around a hundred PlayStation2 chips.

Meanwhile, another system, built by Virginia Tech, in Blacksburg, Virginia, was created from 1,100 Apple G5 chips and commercial off-the-shelf networking components. The $5.2m system was ranked as the third-fastest in the world. Such systems are of growing interest to corporate buyers, and led IBM to decide last year to begin selling supercomputer-class machines commercially.

This month, the Council on Competitiveness, a lobby group based in Washington, DC, organised a meeting of American supercomputer users. The range of attendees highlighted the growing industrial importance of supercomputing. Film studios, for instance, use them for everything from special effects to creating entire films. Procter & Gamble, a household-goods company based in Cincinnati, Ohio has used them to redesign the manufacturing process for Pringles crisps.

The need for speed

Two applications in particular have driven the development of supercomputers: the modelling of climate change and of what happens inside a nuclear explosion—the second of which is necessary because of the ban on actual nuclear testing that is obeyed by established nuclear powers. For more than two years, the fastest computer in the world has been the “Earth Simulator”. Built by Japan's NEC, this machine is used for climate modelling. The two next-fastest computers are used to model nuclear weapons at America's Department of Energy.

Supercomputers are also good for modelling the way proteins fold and, it has been thought, should be useful at helping to predict which drugs might work. Until recently, however, little work of practical value had been done. But in 2003, Wanda Andreoni, a researcher with IBM in Zurich, published a paper which

described how she had used a supercomputer to show that the progesterone molecule could bind to proteins on its two ends, rather than just one—as had been previously believed. This research will have a direct impact in the design of drugs to enhance or interfere with the working of this hormone.

NEC's Earth Simulator runs at around 35 teraflops. A “flop”, or floating-point operation, is the addition or multiplication of a pair of decimal numbers. A teraflop is a trillion of these. IBM, however, hopes to knock the Earth Simulator from its perch. Blue Gene/L, an IBM computer scheduled for operation before the end of the year, should achieve about ten times that speed—over a third of a petaflop (a petaflop is a thousand teraflops). And by 2006, IBM hopes to have achieved a petaflop.

Will the future be full of supercomputers built from more off-the-shelf parts? The American government wants researchers to focus on more customised and expensive systems (reversing the policy in place since the early 1990s). A report this year by the president's science adviser warned that research in high-end supercomputing has not kept pace with demand. Consequently, this month Congress passed legislation to increase funding of supercomputer research.

America's Defence Advanced Research Projects Agency, an arm of the Pentagon, also wants a petaflop machine for its research work. Whether the competition for this contract will be won by a supercomputer built from off-the-shelf components, or built from scratch, is unclear as yet. However, some think that the real limiting factor towards achieving such a machine is software rather than hardware.

At the International Supercomputer Conference, held in Heidelberg, Germany last month, Steve Wallach, a vice-president of Chiaro, a router manufacturer based in Richardson, Texas, and a supercomputer expert, suggested that supercomputer hardware may have to relinquish some performance in order to make the systems easier to program. This is a particular problem for machines built from off-the-shelf systems which often have very low “efficiencies”. While they may be excellent at running the benchmark programs that set the speed rankings, many of their multiple processors remain idle when confronted with real computing tasks.

Mr Wallach says higher performance compilers (these translate programming languages into precise instructions on particular computers) are needed. Mr Wallach's challenge will have to be answered before the massively parallel systems, so good at their traditional applications, prove to be of wider use.

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Nuclear weapons research

Yet another breach

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Why can't researchers at Los Alamos keep a secret?

Troubled times at a nuclear weapons laboratory

“PART of me wants to say get rid of the damn labs.” These tormented words come from Ward Connerly, a regent of the University of California. For many of the nuclear scientists at the Los Alamos national laboratories in New Mexico, where the atomic bomb was first put together, such a sentiment approaches high treason. After all, his university has run Los Alamos on behalf of America's Department of Energy since the lab's inception over six decades ago.

His frustration is understandable given the scandals engulfing America's premier nuclear-weapons research centre. These have culminated in the loss of two data-storage devices officially referred to as “classified removable electronic media”. The disks, containing highly sensitive data, were found to have gone missing during an inventory check on July 7th. However, this week there were also allegations that a Los Alamos lawyer improperly-emailed classified material.

It gets worse. Over the past year, at least 11 of these portable disks have gone missing. In 2000, two hard drives with sensitive information vanished—only to reappear rather mysteriously behind a photocopier. Most damaging of all, perhaps, was the lab's mishandling of Wen Ho Lee, the scientist who was sacked in 1999 over spying allegations. While exonerated from these charges, there is little doubt that he was able to improperly copy huge amounts of classified data.

As Peter Nanos, the laboratory's director, struggled to respond he uncovered more to add to his woes: several recent lapses in safety. An intern's eyes were harmed by the incorrect use of a pulsed ultraviolet laser. And some weeks earlier, an explosion was barely avoided during demolition work near an electrical junction.

On July 15th, an angry Dr Nanos ordered a “stand-down”, an extraordinary measure that brought nearly all work at the lab to a halt while investigators reviewed safety and security. He warned his staff to stop the wilful flouting of lab rules, adding in a menacing fashion, “I don't care how many people I have to fire.”

Lab staff are bristling at such tough talk, which they see as unfair—pointing to serious and less-reported security lapses at the Lawrence Livermore and Sandia laboratories. They argue that the problems at Los Alamos have been exaggerated.

Prompted by the ongoing fiascos, energy department officials announced that the contract to manage the lab will be put to an open competition next year. The University of Texas has expressed interest, and other suitors (including Lockheed Martin, a defence contractor) might join the fray.

Whether a change of stewardship would fix what ails Los Alamos is not clear, as the problems seem to go well beyond management incompetence. The scientists at Los Alamos have worked unmolested for decades, comfortably ensconced in the south-western desert. After the cold war ended, though, this self-regulating and rather self-important culture has come under scrutiny. Ignoring rules about classified data just because one wants to work at home or thinks the rules silly, as informed observers say commonly happened, is no longer tolerated.

Whoever wins the bidding next year looks, then, to have a rough road ahead. Few will comment publicly on this sensitive issue. One source, a senior scientist formerly at Los Alamos, concedes that there are serious cultural problems at the lab. Another source, a politically well-connected insider in Washington, DC, puts it more bluntly, saying the lab's scientists have been coddled for too long. In the weapons part of the lab in particular, the source adds that the staff think, “they answer only to God, and only when He is in a good mood.” Perhaps Mr Connerly is right to have second thoughts about running the place.

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Physics

Paradox lost

Jul 22nd 2004
From The Economist print edition

Stephen Hawking reveals a solution to a problem with his black hole theory

AP

Hawking's hole story

SCIENCE is forever a work in progress. Moulded by the hands of many, the body of scientific knowledge is like a sculpture that is never quite finished. Sometimes, as in the case of cold fusion, the newly added clay just doesn't stick. Other times, ideas are contributed, but the overall aesthetic leaves scientists uneasy. Such is the case of the “information paradox” brought to us by the people's physicist, Stephen Hawking.

Dr Hawking has become well known by writing popular, and best selling, science books about physics. He seems to have a knack for supplying non-scientists with the mental imagery to handle ideas about the early days of the universe and space-time. But, more than this, Dr Hawking is responsible for much of what is known about black holes. He is also responsible for the field's biggest inconsistency—which he resolved this week.

In the mid-1970s, Dr Hawking said information swallowed by a black hole could never be retrieved. A black hole is formed when a star collapses, and produces such a strong gravitational field that matter or light are sucked in—and appear never to escape. But this contradicts the so-called reversibility requirement of quantum theory: that the end of any process must be traceable back to the conditions that created it. In other words, what goes in must eventually come out in some form.

So Dr Hawking's model was not the complete story, and most physicists, including Dr Hawking, knew it. One of the alternatives he suggested was that the information within the black hole might instead be channelled into a parallel (or “baby”) universe after the black hole had died. But, in the end, as nobody really understood the properties of quantum mechanics in the extreme gravitational fields of black holes, this failed to persuade, and the paradox survived.

However, some scientists, including John Preskill of the California Institute of Technology were convinced that Dr Hawking was wrong. Dr Preskill made a bet that, some day, a mechanism would be found that would allow this missing information to be released by a black hole as it evaporated. And this is exactly what Dr Hawking has now done.

He presented his ideas to physicists attending a conference on general relativity and gravitation in Dublin on July 21st. Using high-level mathematics, the language of theoretical physics, he revealed findings that

contradict his earlier work. He says black holes never form an absolute event horizon—ie, a boundary from which nothing can escape. Rather, they form an apparent horizon.

Blurring this boundary means that information can eventually get back into our universe. So, when the black hole dies, it opens up its secrets not to a parallel universe but to our own. As the information returns, albeit in a mangled form, this reconciles the information paradox.

Black-hole physics has provided fodder for science-fiction stories for years. When announcing his findings, Dr Hawking was apologetic about his news, “I'm sorry to disappoint science-fiction fans, but if information is preserved, there is no possibility of using black holes to travel to other universes.”

Physicists have been trying to chisel away at the paradox for many years with little success. It is Dr Hawking's remoulding of his own work that has been responsible for resolving the wager made in 1997. Dr Preskill has now won, as Dr Hawking said the information paradox would hold. The published terms of the bet were that the loser would award the winner with a set of encyclopedias from which “information can be recovered at will”. Dr Preskill is the proud new owner of an encyclopedia of baseball.

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Planetary science

First rock from the Sun

Jul 22nd 2004
From The Economist print edition

After three decades, a new mission to Mercury is set to launch

WHEN *Mariner 10* careened past Mercury in 1974 and 1975, some impressive data was collected, at least by the standards of that period. The craft was equipped with a television camera and several spectrometers. But it was able to photograph only half of the planet in any detail.

There are, then, many unanswered questions about the planet closest to the Sun. And this is why America's space agency, NASA, intends to launch on August 2nd a new mission to Mercury—named *Messenger* (short for MErcury Surface, Space ENvironment, GEochemistry and Ranging).

One of the key questions the mission will tackle is the mystery of its magnetic field. Of the four terrestrial planets—Mercury, Venus, Earth and Mars—only Earth shares this trait. The Earth's field arises from the molten liquid that swirls around in its core. This explanation is not thought likely for Mercury. The planet is much smaller than Earth (only slightly larger than our moon) and so it is assumed that its core would have cooled and solidified long ago.

Scientists, then, want to work out whether they are correct about Mercury having a solid core, and thus whether the planet's field comes from magnetised rocks that are remnants from its earlier and more geothermally active days. They will also be looking for water. Although a Mercury day reaches an excruciating 450°C (840°F), shadows of deep craters provide a constant frigid alternative where water may exist as ice. Scientists are also curious as to what type of environment is harboured deep inside these craters.

Mercury's close proximity to the Sun poses challenges for the craft. *Messenger* will operate behind a ceramic heat shield to keep its instruments at room temperature, and will pass only briefly over the hotter equatorial regions in order to limit exposure to heat reflected from the surface of the planet.

The scientific equipment on board includes an instrument for measuring magnetic fields, and a battery of spectrometers for probing the chemistry of the planet. And this time around there will be cameras taking panoramic full-colour pictures of the entire planet.

Messenger represents a culmination of new technology that will be used to answer many old questions. But the planet, named after the Roman messenger of the gods, will hold on to its secrets for a little while longer. *Messenger* is not due to begin orbiting Mercury until 2011.

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About sponsorship

Procter & Gamble and Unilever

A long-running opera of soap

Jul 22nd 2004
From The Economist print edition

Advertising Archives

The making of two great multinationals

IF THE most powerful forces driving business at the end of the 20th century were computers and communications, at the end of the 19th they were cleanliness and carbolic. One hundred years lie between the emergence of the mass market for keeping clean and the mass market for keeping in touch. These books take the reader back to an era when soap was the silicon chip of the day, when two of the mightiest and most enduring multinationals ever created were being built upon vats of tallow and coconut husk.

Both books give a sense of the extraordinary explosion of markets in and around the 1880s. When William Hesketh Lever opened his first factory to make Sunlight soap in Britain in 1885 it was producing 450 tons a week; by the end of the same year it was producing 3,000 tons, and by the end of 1888, 14,000 tons a week. Over in Cincinnati, William Procter and James Gamble (married to sisters) launched Ivory, their first big soap brand, in 1879. Five years later a fire persuaded them to rebuild their factory on a greenfield site out of town with almost ten times the capacity. Around the same time, in Battle Creek, Michigan, John and William Kellogg were starting to put cereal into boxes; in nearby Pittsburgh, Henry J. Heinz was beginning to churn out ketchup; and William Wrigley was testing his marketing skills in Philadelphia before attaching them to gum. It was the heyday of brand creation.

Adam Macqueen's book is a 21st-century biography of Britain's greatest 19th-century brandmaker. Lever is an absorbing subject. Born and raised in no-nonsense Bolton, Lancashire, he was a great admirer of Samuel Smiles, the author of "Self Help", a philosophical cornerstone of the Victorian era—"a kind of 19th century 'Men are from Mars, women are best not thought about'," says Mr Macqueen. Lever took a cold bath most mornings and slept on a semi-open balcony. He sometimes woke with his bed covered in snow. It is probably no coincidence that both he and his beloved wife Elizabeth ("my better three-quarters") died of pneumonia.

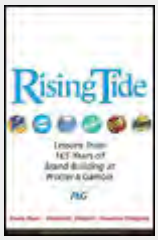
The King of Sunlight: How William Lever Cleaned Up The World
By Adam Macqueen

Bantam Press; 328 pages; £12.99

Buy it at Amazon.co.uk

Rising Tide: Lessons from 165 Years of Brand Building at Procter & Gamble
By Davis Dyer, Frederick Dalzell and Rowena Olegario

Lever was also a controlling, paternalistic industrialist, founder of half of what is today called Unilever and at the forefront of “welfare capitalism”. Approved workers at his Port Sunlight plant, both men and women, were not only given company houses but also (from 1905) pension schemes. That was then an almost unheard-of generosity, although Procter & Gamble (P&G), which set up a profit-sharing scheme for its workers in the 1890s, was also a pioneer in worker welfare. It is almost as if the presence of so much soap purified labour practices.



Harvard Business School Press; 466 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Lever was not a man for argument or introspection. “Aye, nay,” he would say, “we won't argue: you're wrong.” But Mr Macqueen manages to get behind the man's gruff exterior, suggesting that what kept him so busy and so disciplined was the fear of what might flood in should he leave his mind momentarily empty. Particularly moving are the descriptions of William's only brother James, closeted away for years for something that may have been no more sinister than (then rare) diabetes; and of his unsuccessful efforts, late in life when already profoundly deaf, to transform the Outer Hebrides into another experiment in welfare capitalism.

A sense of permanence

“Rising Tide” is a readable account of P&G's continuing success at inventing and sustaining a vast range of brands in markets from Lima to Beijing. Its authors—two consultants and an academic historian—convey the astounding scale of the company's operations: it spends around $5 billion a year on advertising alone, about the same as the total turnover of the online retailer Amazon. When western firms rushed into China in the 1990s, they concentrated their efforts on three main cities. “We are going for all 570 cities in China,” said P&G's country manager at the time.

Corporate histories of this sort give their subjects' investors, customers and employees a warmly reassuring sense of permanence. If there were advertisements for Ivory soap on display in 1880 and in 2000, surely they are not going to disappear just yet? While everything else is changing and confusing, at least great brands remain the same.

But do they? Both P&G and Unilever grew for more than a century on the phenomenon of the mass market. Their business was all about increasing volumes and spreading their messages as widely as possible. But now markets are fragmenting, and there is no mass media anymore. The average American household has access to 90 television channels. Just ten years ago, 90% of P&G's advertising budget went on television. Last year the company launched a new product with only 25% of its advertising budget allocated to TV. In this new world, the two giants' future is no more assured than it was in 1879.

Meanwhile, there's no harm in a little corporate nostalgia, especially when it is delivered in Mr Macqueen's refreshingly vivacious prose.

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By Adam Macqueen.
Bantam Press; 328 pages; £12.99

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About sponsorship

America and Europe

Divided we stand

Jul 22nd 2004
From The Economist print edition

MARTIANS against Venusians. Cowboys against surrender-monkeys. Religious fanatics against godless cynics. Lard-butts against leisure-lovers. The many recent popular caricatures of how America and Europe are now divided, supposedly inexorably rather than just over Iraq or terrorism, do not impress Timothy Garton Ash.

A scholar who divides his time between St Antony's College, Oxford, and the Hoover Institution at Stanford University in California, Mr Garton Ash thinks there is far more that unites the two sides of the Atlantic than divides them. Indeed, there are at least as many divisions within the two sides as between them. As Donald Rumsfeld tactlessly pointed out, the divisions within Europe mean there is little sense in proclaiming that there is a common European view of war, peace or even policy in the Middle East—and a similar story prevails on the other side of the Atlantic. The many attempts to argue otherwise, says Mr Garton Ash refreshingly, come from authors seeking to grab attention in a crowded market by provocative simplifications and distortions.

Free World: Why a Crisis of the West Reveals the Opportunity of Our Time
By Timothy Garton Ash

Penguin/Allen Lane; 308 pages; £17.99. To be published in America by Random House in November

Buy it at Amazon.co.uk

Such distortions are Mr Garton Ash's main target in this clear, sensible and well-written book. He starts with what he sees as the erroneous notion that Britain must choose between America and Europe: it mustn't, for both are valuable. Keeping the two sides of the Atlantic together is in Britain's interests—but it is in everybody else's too. For America is not as powerful as it recently came to think it was, and so needs its old allies—who, in turn, need it.

Mr Garton Ash spent the first decade or so of his adult life analysing and, in some ways, participating in the struggles of central European countries to break free from the Soviet Union. The attitudes of people he knew at that time, in countries such as Poland and Czechoslovakia, have left him not only in admiration of them but also with a strong belief that freedom, protected by liberal democracy, is a much more powerful and uniting characteristic of the West than many westerners believe, for they take it for granted.

History did not end when the Berlin wall came down in 1989, nor was a triumph over Soviet communism superseded, as some argue, by a descent of large parts of the world into an anarchy that threatens the West with chaos or with a civilisational clash. Rather, Mr Garton Ash believes that the past quarter-century has represented an onward march of freedom that is only a beginning. If the gains made in the 1990s are to be extended into more countries that suffer from abject poverty, arbitrary rule or chaos, countries that contain most of the world's population, then Europe and America need to stop wasting effort squabbling with each other.

The author is not naive enough to believe that the further spread of freedom will be rapid or easy. But it is the great opportunity of our time. And it can be seized as long as both governments and citizens become engaged on the task: as civil-rights marchers used to chant, they must keep their eyes on the prize.

In a book that accuses others of over-generalising, Mr Garton Ash occasionally commits the same sin himself. For example, he anguishes about the environmental risks posed if “western-style consumerism” is adopted by newly affluent developing countries. Yet there is no single “western style” of consumption, and the various such styles have altered dramatically as America and Europe have grown richer and more concerned about the environment. Why shouldn't the same become true of China, India and other

developing countries? But that is a minor cavil with a book that is well worth reading.

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By Timothy Garton Ash.
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About sponsorship

Jim Collins

Built to last

Jul 22nd 2004 | BOSTON
From The Economist print edition

Secrets of the world's bestselling business books

HOW to explain the enduring popularity of Jim Collins? The business writer's most recent book, “Good to Great”, has been on the *New York Times*'s list of bestselling non-fiction since its publication in the autumn of 2001. By May this year, HarperCollins, the book's publisher, had sold more than 1.5m copies in hardback—breaking a record set by the 1982 classic, “In Search of Excellence”, by Tom Peters and Robert Waterman. Mr Collins's previous book, “Built to Last”, published in 1994, sold more than 1m copies and has been translated into 13 languages. Mr Collins is probably the most widely read business writer in the world.

What makes his success the more striking is that his influence extends beyond the boardroom and the corner office. Harassed orchestra directors study his insights with the concentration of Talmudic scholars. Trendy pastors swear by him.

Mr Collins, a former teacher at Stanford University's business school, a sometime manager at Hewlett-Packard and an avid rock-climber, is nonplussed by his own success. Reached at his “management research laboratory” in Boulder, Colorado, he could only say: “These things have so far exceeded my expectations that I am scratching my head myself.” Nonetheless, some explanations do offer themselves.

First, his ideas are not the products of isolated cogitation. Rather, “Jim Collins” is a small industry: the books are only written after Herculean research and debate by teams of analysts. In the case of “Good to Great”, 21 business students from the University of Colorado spent 15,000 hours choosing and studying the 11 companies that Mr Collins uses as examples of great management. A similar team spent six years examining long-lived companies for “Built to Last”.

Secondly, the ideas thrown up by all that digging are not bad. They may surprise a management consultant, but they will be welcomed as common sense by almost everyone else. Mr Collins says that the best bosses are self-effacing and modest: they sublimate their personal ambitions to those of the organisation. He says that executive compensation has little relation to executive performance: inspired managers do it for love. And he says that for great companies, technology is often an “accelerator of momentum, [but] not a creator of it.” It helps that Mr Collins writes mainly in lucid, economical English: this isn't faddish management theory.

But the real reasons for the success of “Good to Great” and “Built to Last” are probably less rational. Mr Collins's books soothe the deepest anxieties of managers. “Built to Last” insists that great companies are built as much by trial and error as by brilliant strategic planning, while “Good to Great” implies that with sufficient discipline anyone can transform their organisation.

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About sponsorship

Jacques Henri Lartigue

Spectator sport

Jul 22nd 2004
From The Economist print edition

JACQUES HENRI LARTIGUE became a star at the ripe old age of 69 when, in 1963, the Museum of Modern Art in New York (MoMA) organised his first solo exhibition. Four decades later, the photographer's exuberant images of Belle Epoque France—society gatherings, car races, early aeroplanes, giant kites and his own eccentric family—are captivating audiences once more in a new show that has travelled to London's Hayward Gallery from the Centre Georges Pompidou in Paris.

A passionate photographer from early childhood (he took 250,000 photographs over 85 years), Lartigue compiled and classified his work like an obsessive lepidopterist, sprinkling the margins of his albums with notes while also keeping journals. “Lartigue: Album of a Century” contains facsimile pages from these albums, charting his career until his death in 1986.

Given a camera by his father on his seventh birthday, he started out taking pictures of his nanny, Dudu, his parents and his garden. Aged nine, he persuaded his cousin Bichonnade to leap down a flight of stone steps outside the family home in Paris, catching her in graceful mid-flight, complete with long Edwardian skirt and silk jacket, a theme that he returned to many times. In later photographs, male cousins race around in flimsy home-made airplanes, boats made from rubber tyres, and cars. Several members of the family, including Jacques Henri's brother, were engineers and inventors.

“Suppose I go to the park to photograph the ladies in the most outrageous and beautiful hats”, the young boy wrote in his journal, reflecting his lifelong fascination with elegant women. Born into the Paris beau-monde (the family was one of the richest in France before the first world war), Jacques Henri photographed what Colette called “the bustling life of people with nothing to do”: the social parade in the Bois de Boulogne; a society lady in her lavish furs attracting a covetous glance from a male passer-by; spectators at the ageing Duc de Montpensier's wedding to a young woman; winter sports in Switzerland and summers spent on the beaches of Deauville and Biarritz where, Lartigue wrote, “Nothing hinders my eyes from roaming, drifting endlessly.”

Both MoMA and *Life Magazine* promoted Lartigue as an innocent boy genius raised in a photographic wilderness—the average age at which he took the pictures selected for the 1963 show was 17. But this is misleading, says Kevin Moore, an art historian who is the author of a new biography. Lartigue *père* was not only a rich banker but also a serious amateur photographer who owned the latest cameras and shared his dark room with his gifted son, guiding him through all the technical intricacies of image-making.

The young boy took consistently first-class photographs from the age of 12 and, as his journal describing his trips to the Bois de Boulogne reveals, he was by then already a perfectionist. He estimated distance, as well as calculating light and depth of field, with the precision of a surveyor as he waited for “she” to saunter by.

In Mr Moore's book, though scholarly and crammed with contemporary

Jacques Henri Lartigue: The Invention of an Artist
By Kevin Moore

Princeton University Press; 272 pages; $45 and £29.95

Buy it at
Amazon.com
Amazon.co.uk

Lartigue: Album of a Century

Thames & Hudson; 400 pages; £48.00

Buy it at
Amazon.com
Amazon.co.uk

detail, Lartigue remains an elusive character. The photographer married three times (his most striking images in the 1920s are of his first wife Bibi, the daughter of the composer André Messager), yet he remained a detached figure, ignoring even the cataclysm of the first world war. “There is a spectator in me who watches”, he wrote, “with no concern for specific events, without knowing if what is happening is serious, sad, important, funny or not.” Spectators of his work today are left to judge that for themselves.

Jacques Henri Lartigue: The Invention of an Artist.
By Kevin Moore.
Princeton University Press; 272 pages; $45 and £29.95

The carefree leaps of youth

Lartigue: Album of a Century.
Thames & Hudson; 400 pages; £48.00

“Jacques Henri Lartigue: Photographs 1901-1986” is at the Hayward Gallery, London, until September 5th

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About sponsorship

Cricket and apartheid

A game of colour and spin

Jul 22nd 2004
From The Economist print edition

HISTORIANS are only now beginning to grasp that the people who did most to persuade South African politicians that a white racist state could not survive the 20th century were bankers and cricketers. The cricketers' boycott started first, and the pretext was a coloured player from the Cape named Basil D'Oliveira, who was selected 44 times for England, but never against South Africa.

Peter Oborne is a political columnist and he has an acute perception of the small tragedies and pernicious deceits that worm their way into sport when it is forced to confront the "real world". He tells the story in stark blacks and whites—the blacks are white, of course—like a modern morality play. The villains conspired to prevent Mr D'Oliveira being picked to tour South Africa with the England team in 1968-69. John Vorster, the South African prime minister, was willing to contemplate the inclusion of Maoris in a touring New Zealand rugby team, but the presence of Mr D'Oliveira, a role-model for coloured and African sportsmen who had been forced to leave his homeland to play international cricket, was intolerable.

Using newly released government documents, Mr Oborne shows that Vorster's most ardent co-conspirators were to be found in the Marylebone Cricket Club, the MCC, the epicentre of England's cricket establishment. Grandees like Sir Gubby Allen, the club treasurer, were determined to ignore apartheid and go on playing cricket with South Africa. If that meant misleading their members, so be it.

Mr Oborne steers adroitly through these deep waters. Mr D'Oliveira made life hard for the conspirators by scoring 158 runs against Australia just before the touring team was picked, a brilliant innings that seemed to confirm his place. But he was not selected, and conviction that the MCC was pandering to Vorster caused an outcry. Then Vorster cancelled the tour after Mr D'Oliveira was chosen as the replacement for a player who dropped out. The sporting boycott started there.

Basil D'Oliveira is a vulnerable hero. He much preferred playing and drinking to politics. His fans back home occasionally despaired of him, but he never gave in to the blandishments that were offered. Mr Oborne is so admiring that he inflates the player's reputation. He was not "South Africa's most gifted cricketer". Nor was his score of 158 "the greatest innings D'Oliveira, or for that matter, any other cricketer has ever played." But it did, as he says, change history.

Ali Bacher, the son of Lithuanian Jews who had fled to South Africa in the 1920s, was captain of the South African team that was condemned by the boycott to play only at home. The most distinguished Jewish cricketer of any era, Mr Bacher also practised as a doctor. But he was a marketing man at heart and feared that, without international cricket, South Africans would lose the habit of watching the game. Given the chance to run the country's cricket, his solution was to tempt top-class players from abroad to join "rebel tours" by offering large sums of money.

Rodney Hartman's thoroughly researched biography leaves no stone unturned. Mr Bacher duly confesses to having deceived many old friends, but the last of the rebel tours set off such vicious rioting among black South Africans that he experienced a sort of Damascene conversion to multi-racial cricket. After more covert negotiation and secret deals, he was eventually able to organise South Africa's readmission

Basil D'Oliveira: Cricket and Conspiracy—The Untold Story
By Peter Oborne

Little, Brown; 274 pages; £16.99

Buy it at
Amazon.co.uk

Ali: The Life of Ali Bacher
By Rodney Hartman

Penguin/Viking; 450 pages; £14.99

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to international cricket 23 years after the D'Oliveira debacle.

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Mexico

The view from Gringolandia

Jul 22nd 2004
From The Economist print edition

JUST days before September 11th 2001, President George Bush famously declared that America had “no closer relationship” than with Mexico. Then came Mexico's ungenerous response to the terrorist attacks and the two countries' falling-out over the Iraq war, and Mr Bush had to eat his words. Nonetheless, whatever happens elsewhere, Mexico matters to its northern neighbour. Some two-thirds of the 40m Latinos who live in the United States are of Mexican origin, and most of them have a vote which counts.

These two books on the country by Americans will, in different ways, inform the debate on the future shape of the Mexico-US relationship. The more useful is “Opening Mexico”, by two former Mexico correspondents of the *New York Times*. Their theme is the decline and fall of the Institutional Revolutionary Party, the PRI, which ruled Mexico in what was once called “a perfect dictatorship” for 71 years until Vicente Fox of the National Action Party won the presidential election of 2000. In the decades following the end of the Mexican revolution in 1920, the PRI won legitimate support as a nationalist, paternalist party, using oil to fund a sort of Mexican version of the welfare state. But by the late 1960s that legitimacy was waning, and the dictatorial side of the PRI was dreadfully on display in the massacre of some 300 students a few months before Mexico hosted the 1968 Olympic Games.

The two authors chronicle the subsequent unravelling of the PRI. They reconstruct the economic meltdown of 1994-95 that spelt the end to any lingering claims that the party might have had to economic competence. But the best chapters recount in vivid detail the full depths of the corruption that pervaded the system in its last two decades of power. To understand why Mexicans turned against the PRI in such numbers in 2000, read this book.

A more amusing read, however, is “The US and Mexico” by Jeffrey Davidow, the American ambassador to Mexico during one of the more turbulent periods in the bilateral relationship, from 1998 to 2002. His memoirs, written in an engagingly ironic tone, are good at picking through the details of Mexico's endless love/hate relationship with Gringolandia, as the people there like to call their northern neighbour.

As ambassador, Mr Davidow mostly had to bear the hate. He recounts how his words would be twisted out of context by the Mexican press, eager to feed their readers yet more evidence of Yankee imperialism. He bore it mostly with good grace, until September 11th, when he rightly chides Mexico for its slow response to America's cry for support. But he chides his superiors back home too, condemning policies (such as “certification”, America's annual evaluation of countries' co-operation in its war against drugs) that routinely and needlessly upset Mexican sensibilities.

Opening Mexico: The Making of a Democracy.
By Julia Preston and Samuel Dillon.
Farrar, Straus and Giroux; 592 pages; $30

The U.S. and Mexico: The Bear and the Porcupine.
By Jeffrey Davidow.
Markus Weiner; 254 pages; $24.95

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Chicago's Millennium Park

Jul 22nd 2004
From The Economist print edition

Officially opened last weekend, four years overdue and wildly over budget, the $475m project occupies 24.5 acres near the lake in the Windy City. It has four particularly eye-catching features: a music venue designed by Frank Gehry, topped with the twirling metal flourishes like shaved chocolate that have become the north American architect's signature; a snaking pedestrian bridge, also by Mr Gehry; a 110-tonne highly reflective jelly-bean sculpture by the Bombay-born British artist Anish Kapoor; and two 50-foot glass towers by Jaume Plensa, a Spanish sculptor. The towers show images of the faces of a series of Chicagoans, out of whose mouths pours an arc of water. The city is hoping that the park will restore its reputation for being at the leading edge of design. Great as they undoubtedly are, however, neither Mr Gehry, Mr Kapoor nor Mr Plensa is as close to that edge as they were four years ago.

Getty Images

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Obituary

Bella Lewitzky

Jul 22nd 2004
From The Economist print edition

Bella Lewitzky, American dancer and choreographer, died on July 16th, aged 88

SHE was never one to cut corners, do the obvious or pay homage to the established gods. She was disciplined, original and unorthodox, both in her work and in her political attitudes. Small, trim and determined, Bella Lewitzky was, above all, true to herself.

Had it been otherwise, she would perhaps have become a classical ballet dancer, not an exponent of modern dance. She would have left her native California for New York, which was the undisputed cultural capital of the United States when she was growing up, and certainly the mecca to which most ambitious American dancers were drawn. And she would, surely, never have found herself giving evidence before the House of Representatives' Committee on UnAmerican Activities, let alone answering its request for the names of communist sympathisers with the crisp put-down, “I'm a dancer, not a singer.”

Born in Los Angeles, she was brought up by her Russian-Jewish émigré parents in a utopian socialist colony in the Mojave desert. Rejecting New York—“where people step over bodies like they do over garbage”—she went at the age of 18 to Los Angeles to study dance under Lester Horton, an influential choreographer. Within three years she was the principal dancer in his group. Then followed marriage (to Newell Taylor Reynolds, another Horton dancer), her own dance school and company, motherhood, teaching and, in 1966, the foundation of the Bella Lewitzky Company, for which she is best remembered. She continued to perform until 1978, when she was 62, and to run her troupe until 1997. Throughout this time she was widely admired for her mastery of technique, the range of her choreography and the control and inventiveness that marked her work.

All this would have been remarkable anywhere; in bland Los Angeles it was also unconventional. Los Angeles half a century ago was not quite the cultural desert that many people “back east” thought it to be: H.L. Mencken had called it “Moronia”, Aldous Huxley had commented that “thought is barred in this city of Dreadful Joy and conversation is unknown”, and Woody Allen was to remark that the city's only contribution to culture was the practice of turning right at a red light, made legal in the 1947 vehicle code.

In fact, by the 1960s Los Angeles had played host, however fleetingly, to a huge variety of authors, musicians and artists, among them Bertolt Brecht, Joan Didion, Jascha Heifetz, David Hockney, Huxley himself, Christopher Isherwood, Thomas Mann, Robert Motherwell, Nathanael West, Artur Rubinstein, Arnold Schoenberg and Igor Stravinsky. And, by virtue of Hollywood, Los Angeles was the home of a large part of American popular culture. But it boasted little in the way of performing arts until its Music Centre opened in 1964, and even then no ballet to speak of and little modern dance. So Ms Lewitzky's decision to base her dance school and her companies in Los Angeles was a brave one.

Bravery, however, was one of her hallmarks. Disliking constraints of any kind except those she imposed upon herself, she refused to sign a loyalty pledge when she was appointed to a teaching post at Idyllwild arts school and, in 1990, took the National Endowment for the Arts to court when it asked her to accept a no-obscenity clause in return for a grant. Ms Lewitzky argued that, though she had never choreographed anything that could be considered obscene, she should have the right to do so if she wanted. The argument proved persuasive. The condition, imposed at the insistence of right-wing politicians such as Senator Jesse Helms, was ruled a breach of the constitutional right to free speech.

Ms Lewitzky, however, did not succeed in all she attempted. She campaigned hard in the 1980s to add a building dedicated to dance to the Music Centre's cluster of auditoriums in central Los Angeles, but could not raise the money. Though efforts were then made to lure the Joffrey Ballet from New York (it went to Chicago), it was not until 1996 that Los Angeles got a resident dance company, Dancecorps, which, like

the small troupes in Anaheim, Pasadena and Ventura county, have far to go before they achieve the renown of Ms Lewitzky's. The highlight of the year for many local companies is the Christmas performance of Tchaikovsky's “Nutcracker”.

At 81, just a bit too avant-garde

Why then, it may be asked, did Ms Lewitzky disband her troupe in 1997? The answer, she said, was that she spent so much time trying to raise money, gather dance-lovers to sit on boards and put on shows merely to raise funds that little energy was left for reflection, creation and the hard labour that lies behind all excellence. And she was not prepared to compromise by staging tired or second-rate work.

At the company's final performance, Ms Lewitzky was inevitably the centre of attention. Yet she eschewed the limelight, bringing on to the stage the entire company—dancers, designers, the lot—to receive their share of recognition one by one. It had always been her way to look after her colleagues, insisting not just on decent salaries for them but also on proper insurance. In her work, as in her politics, she was loyal to her principles. Too bad that, in the end, Los Angeles would not provide the financial support to keep her somewhat unconventional company alive.

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Overview

Jul 22nd 2004
From The Economist print edition

Alan Greenspan gave an upbeat assessment of **America's** economy in his semi-annual testimony to Congress. The chairman of the Federal Reserve said the recovery was broad-based and suggested that recent softness in consumer spending would be short-lived. America's central bank expects the economy to grow by 4.5-4.75% in the year to the final quarter of 2004.

Consumer prices rose in America by 3.3% in the year to June, up from 3.1% in May. Core consumer prices, which exclude the volatile categories of food and energy, increased by 1.9% in the year to June. But the monthly increase in core prices was only 0.1%, the smallest since December 2003.

After big rises in April and May, America's industrial production fell by 0.3% in June but was still 5.6% higher than a year ago. The rate of capacity utilisation, a measure of slack in the economy, eased to 77.2%.

In **Canada**, consumer prices rose by 2.5% in the year to June—above the 2.0% target. However, core inflation, which the Bank of Canada uses as an operational guide to policy, was a more subdued 1.7%.

Consumer prices in the **euro area** increased by 2.4% in the year to June, down from 2.5% in May. Core consumer prices rose by 2.2% in the 12 months to June. Led by capital goods, industrial production in the single-currency zone rose by 3.9% in the year to May, up from 1.6% in April. Industrial production in the euro area has now risen for four consecutive months.

Investors in **Germany** are becoming a bit more optimistic. According to the ZEW index, investor confidence rose from 47.4 in June to 48.4 in July. Analysts had expected a drop.

Italy's current-account deficit narrowed from $16.2 billion in the year to April to $15.2 billion in the year to May. **France**'s current-account surplus fell over the same period from $5.2 billion to $2.5 billion.

Britain's monetary-policy committee voted unanimously to keep interest rates on hold at 4.5% in July, according to minutes of their meeting released this week. However, their deliberations suggest that they will raise rates again in August.

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Output, demand and jobs

Jul 22nd 2004
From The Economist print edition

% change on year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	The Economist poll GDP forecasts 2005	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 3.2 Q1	+ 0.9	+ 3.5	+ 3.4	– 1.1 Q1	+ 7.7 Q1	5.6 Jun	6.1
Austria	+ 0.5 Q1	+ 0.8	+ 1.6	+ 2.1	+ 5.6 Apr	+ 2.6 Apr	4.2 Jun	4.4
Belgium	+ 2.0 Q1	+ 3.0	+ 2.2	+ 2.1	+ 3.1 May	+ 0.9 Apr	12.4 Jun†	11.6
Britain	+ 3.4 Q1	+ 2.9	+ 3.2	+ 2.7	+ 1.3 May	+ 7.4 May	4.7 May††	5.0
Canada	+ 1.6 Q1	+ 2.4	+ 3.0	+ 3.4	+ 2.8 Apr	+ 4.9 Mar	7.3 Jun	7.7
Denmark	+ 1.4 Q1	+ 3.8	+ 1.9	+ 2.2	+ 1.7 May	+ 1.5 May	6.5 May	6.0
France	+ 1.7 Q1	+ 3.1	+ 2.2	+ 2.2	+ 3.4 May	– 1.1 May	9.8 May	9.7
Germany	+ 1.5 Q1	+ 1.8	+ 1.4	+ 1.7	+ 4.2 May	– 2.3 May	10.5 Jun§	10.6
Italy	+ 0.8 Q1	+ 1.8	+ 1.2	+ 1.8	+ 2.7 May	– 1.6 Apr	8.5 Jan	8.9
Japan	+ 5.6 Q1	+ 6.1	+ 4.4	+ 2.2	+ 4.6 May	– 2.4 May	4.6 May	5.4
Netherlands	+ 0.9 Q1	+ 2.8	+ 1.3	+ 1.8	– 0.8 May	– 1.7 Apr‡	6.4 Jun**	5.3
Spain	+ 2.8 Q1	+ 2.6	+ 2.8	+ 2.8	+ 2.9 May	+ 1.2 May	11.1 May	11.3
Sweden	+ 2.6 Q1	+ 2.6	+ 2.8	+ 2.5	+ 7.5 May	+ 5.4 May	5.3 May†	4.2
Switzerland	+ 1.5 Q1	+ 1.6	+ 1.9	+ 2.0	+ 4.5 Q1	– 3.5 May	3.7 Jun†	3.6
United States	+ 4.8 Q1	+ 3.9	+ 4.6	+ 3.6	+ 5.6 Jun	+ 7.3 May	5.6 Jun	6.3
Euro area	+ 1.3 Q1	+ 2.3	+ 1.8	+ 2.0	+ 3.9 May	– 0.9 May	9.0 May	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.7 Q1	+ 3.0	na	na	+ 7.2 May	+ 5.7 Apr	8.9 Jun†	9.6
Greece	+ 4.0 Q1	+ 3.0	na	na	+ 0.3 May	+ 5.6 Apr	na	na
Iceland	+ 4.9 Q1	na	na	na	na	na	3.3 May†	3.6
Ireland	+ 6.1 Q1	na	na	na	– 0.2 May	+ 2.5 Apr	4.3 Jun	4.7
Luxembourg	+ 2.12003	na	na	na	– 1.2 Dec	+ 0.3 Feb	4.0 May	3.6
New Zealand	+ 4.4 Q1	+ 8.1	na	na	+ 5.5 Q1	+ 8.0 Q1	4.3 Q1	4.9
Norway	+ 2.9 Q1	+ 3.9	na	na	+ 5.5 May	+ 1.2 May	4.5 Q1	4.4
Portugal	+ 0.1 Q1	+ 2.4	na	na	– 1.8 May	+ 0.5 May	6.4 Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 2.7% in Jun. §EU harmonised rate 9.8% in Jun. **Apr-Jun.

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Prices and wages

Jul 22nd 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.0	Q1	+ 3.4	+ 2.5	+ 2.6	– 1.1	Q1	+ 3.0	+ 5.1	Q1	+ 4.4
Austria	+ 2.3	Jun	+ 1.1	+ 1.6	+ 1.5	+ 5.9	Jun	+ 1.7	+ 2.1	May	+ 2.1
Belgium	+ 2.3	Jun	+ 1.6	+ 1.7	+ 1.5	+ 3.9	May	– 0.4	+ 2.3	Apr	+ 1.7
Britain	+ 1.6	Jun*	+ 1.1	+ 1.5	+ 1.9	+ 2.6	Jun	+ 1.1	+ 4.3	May†	+ 3.2
Canada	+ 2.5	Jun	+ 2.6	+ 1.9	+ 2.1	+ 5.5	May	– 1.9	+ 4.0	Apr	+ 1.9
Denmark	+ 1.1	Jun	+ 2.2	+ 1.3	+ 1.9	+ 2.4	Jun	– 0.2	+ 3.3	Q1	+ 3.9
France	+ 2.4	Jun	+ 2.0	+ 2.1	+ 1.6	+ 2.3	May	+ 0.7	+ 2.8	Q1	+ 2.9
Germany	+ 1.7	Jun	+ 1.0	+ 1.6	+ 1.2	+ 3.5	Jun	nil	+ 1.8	May	+ 1.4
Italy	+ 2.4	Jun	+ 2.7	+ 2.2	+ 2.1	+ 2.9	May	+ 1.6	+ 3.3	May	+ 1.7
Japan	– 0.5	May	– 0.2	– 0.1	+ 0.2	+ 1.4	Jun	– 1.1	+ 1.2	May	+ 2.4
Netherlands	+ 1.4	Jun	+ 1.9	+ 1.5	+ 1.4	+ 4.0	May	+ 0.6	+ 1.5	Jun	+ 2.9
Spain	+ 3.5	Jun	+ 2.8	+ 2.8	+ 2.6	+ 3.8	May	+ 0.7	+ 3.2	Q1	+ 4.9
Sweden	+ 0.5	Jun	+ 1.8	+ 0.9	+ 1.6	+ 1.2	May	– 1.4	+ 1.5	Apr	+ 3.1
Switzerland	+ 1.1	Jun	+ 0.6	+ 0.7	+ 1.1	+ 1.5	Jun	– 0.7	+ 1.4	2003	+ 1.8
United States	+ 3.3	Jun	+ 2.1	+ 2.5	+ 2.2	+ 4.0	Jun	+ 2.7	+ 2.0	Jun	+ 2.7
Euro area	+ 2.4	Jun	+ 1.9	+ 2.0	+ 1.7	+ 2.4	May	+ 1.4	+ 2.3	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.1	Jun	+ 0.8	na	na	+ 1.1	Jun	– 0.3	+ 4.1	Q1	+ 4.1
Greece	+ 2.8	Jun	+ 3.8	na	na	+ 3.1	May	+ 2.4	na		na
Iceland	+ 3.6	Jul	+ 1.6	na	na	+ 5.0	Jun	+ 3.2	+ 4.6	May	+ 5.6
Ireland	+ 2.3	Jun	+ 3.5	na	na	– 0.1	May	–10.0	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.6	Jun	+ 1.8	na	na	+ 5.8	Apr	+ 1.7	– 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	– 0.6	Q1	– 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 1.3	Jun	+ 1.7	na	na	+12.0	Jun	+ 2.8	+ 4.6	Q1	+ 5.3
Portugal	+ 2.7	Jun	+ 3.3	na	na	+ 2.4	Jun	+ 0.8	+ 1.3	May	– 1.9

*New series. RPI inflation rate 3.0% in Jun. †Mar-May.

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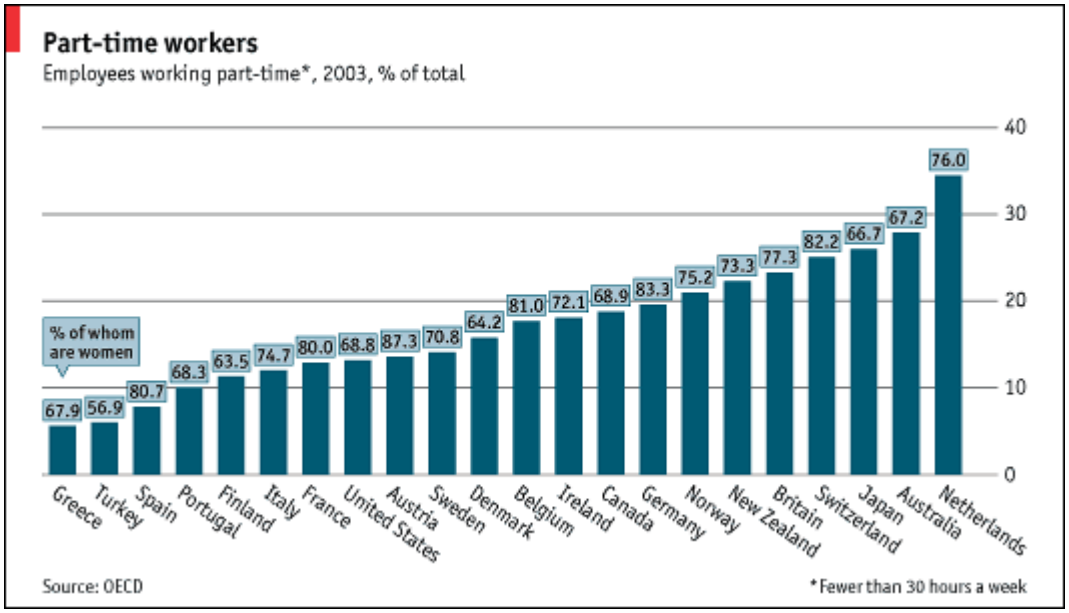
Part-time workers

Jul 22nd 2004
From The Economist print edition



The rising share of part-time jobs is the main reason why the hours worked per employee have fallen in OECD countries since 1990. The incidence of part-time work also helps to explain international variations in working hours. The Dutch, who have the highest share of part-time employees, have an average working week of 32 hours, whereas it is 41 hours in Greece, where part-time employment is less common.

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Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 21st 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.3	+10.3	May	5.44	4.71	5.23	5.75	5.31	6.52
Britain	+ 5.2	+ 7.8	May	4.78	3.34	4.80	5.12	4.35	5.90
Canada	+12.4	+ 8.6	May	2.05	2.80	3.19	4.83	4.75	6.30
Denmark	+ 7.9	+ 9.0	May	2.25	2.25	2.54	4.38	4.15	5.55
Japan	+ 3.6	+ 1.8	Jun	0.03	0.01	0.16	1.77	0.95	1.86
Sweden	+ 0.7	+ 3.7	May	1.98	2.66	2.88	4.54	4.36	2.97
Switzerland	+ 6.6	+ 4.2	Jun	0.51	0.29	1.27	2.84	2.44	2.64
United States	+ 5.0	+ 5.9	Jun	1.53	1.01	2.68	4.48	4.10	5.91
Euro area†	+ 9.3	+ 4.7	May	2.12	2.13	2.53	4.24	3.92	4.04

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.20%, Japan No. 261 1.78%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 22nd 2004
From The Economist print edition

1995=100

	Jul 13th	Jul 20th*	% change on one month	% change on one year
Dollar index				
All items	95.3	93.0	– 1.3	+23.3
Food	91.8	87.9	– 4.3	+17.6
Industrials				
All	100.1	99.9	+ 2.5	+30.7
Nfa†	91.7	92.4	– 0.3	+17.6
Metals	107.1	106.3	+ 4.6	+42.5
Sterling index				
All items	81.0	79.1	– 3.1	+ 6.4
Euro index				
All items	101.7	98.8	– 3.6	+13.1
Yen index				
All items	110.7	107.2	– 1.9	+12.0
Gold				
$ per oz	401.45	399.75	+ 0.9	+14.1
West Texas Intermediate				
$ per barrel	39.51	40.40	+ 6.2	+35.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jul 22nd 2004
From The Economist print edition

Market indices

	Jul 21st	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,528.1	3,562.8	3,274.9	+ 0.1	– 1.0	+ 6.7	+ 1.0
Austria (ATX)	2,007.5	2,030.5	1,568.9	nil	– 1.1	+29.9	+25.9
Belgium (Bel 20)	2,461.1	2,517.3	2,244.2	– 0.2	–33.2	+ 9.7	+ 6.3
Britain (FTSE 100)	4,377.3	4,575.7	4,309.4	+ 0.1	–36.8	– 2.2	+ 0.3
Canada (Toronto Composite)	8,454.2	8,898.8	8,123.5	nil	–25.8	+ 2.8	+ 0.3
Denmark (KBX)	238.8	241.3	219.0	nil	–20.9	+11.8	+ 8.5
France (SBF 250)	2,488.6	2,594.4	2,411.5	– 0.2	–43.3	+ 3.2	nil
(CAC 40)	3,637.5	3,811.4	3,465.3	– 0.3	–47.5	+ 2.2	– 0.9
Germany (DAX)	3,877.5	4,151.8	3,726.1	– 0.5	–51.9	– 2.2	– 5.2
Italy (BCI)	1,302.3	1,340.3	1,239.5	+ 0.1	–40.3	+ 3.6	+ 0.4
Japan (Nikkei 225)	11,433.9	12,163.9	10,365.4	+ 0.7	–70.6	+ 7.1	+ 4.4
(Topix)	1,153.8	1,217.9	1,022.6	+ 0.2	–60.0	+10.5	+ 7.7
Netherlands (AEX)	331.4	364.8	323.0	– 0.4	–52.8	– 1.9	– 4.9
Spain (Madrid SE)	848.5	881.7	808.0	nil	–26.0	+ 5.0	+ 1.8
Sweden (Affarsvarlden Gen)	198.0	218.1	188.5	– 1.7	–50.5	+ 5.1	+ 0.7
Switzerland (Swiss Market)	5,561.7	5,934.4	5,429.7	+ 0.2	–33.9	+ 1.3	– 0.2
United States (DJIA)	10,046.1	10,737.7	9,906.9	– 1.6	–14.3	– 3.9	– 3.9
(S&P 500)	1,093.9	1,157.8	1,084.1	– 1.6	–28.4	– 1.6	– 1.6
(NASDAQ Comp)	1,874.4	2,153.8	1,874.4	– 2.1	–62.9	– 6.4	– 6.4
Europe (FTSE Eurotop 300)*	978.2	1,026.2	957.9	– 0.2	–42.6	+ 2.1	– 1.0
Euro area (FTSE Ebloc 100)*	827.6	888.3	806.7	– 0.7	–46.6	– 0.5	– 3.5
World (MSCI)†	1,030.3	1,085.8	997.0	– 1.4	–28.9	– 0.6	– 0.6
World bond market (Citigroup)‡	596.8	619.5	575.1	– 0.9	– 3.7	– 1.1	– 1.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Jul 21st	year ago	Currency units per $ Jul 21st	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.6	May	− 33.0	Q1	− 5.3	− 4.7	84.4	82.9	1.40	1.52	2.58	1.71	1.28	0.5
Austria	− 0.5	Apr	− 2.0	May	− 0.4	− 0.5	103.0§	103.0	0.82	0.87	1.50	–	0.74	-1.3
Belgium	+ 21.9	May	+ 12.2	Mar	+ 3.4	+ 3.5	103.0§	103.4	0.82	0.87	1.50	–	0.74	-0.2
Britain	− 91.3	May	− 39.2	Q1	− 2.6	− 2.6	105.8	98.0	0.54	0.62	–	0.67	0.50	-2.9
Canada	+ 46.7	May	+ 20.9	Q1	+ 2.4	+ 1.8	87.1	83.2	1.33	1.41	2.43	1.62	1.20	1.2
Denmark	+ 10.3	May	+ 6.8	May	+ 2.5	+ 2.4	106.5	106.9	6.08	6.49	11.2	7.44	5.53	0.9
France	+ 4.4	May	+ 2.5	May	+ 0.8	+ 0.8	106.5§	106.8	0.82	0.87	1.50	–	0.74	-3.8
Germany	+179.6	May	+ 81.3	May	+ 2.6	+ 2.6	104.2§	104.5	0.82	0.87	1.50	–	0.74	-3.7
Italy	+ 3.4	May	− 15.2	May	− 0.9	− 0.8	76.0§	76.1	0.82	0.87	1.50	–	0.74	-3.1
Japan	+124.5	May	+160.7	May	+ 3.4	+ 3.4	133.7	128.2	110	119	202	134	–	-7.1
Netherlands	+ 33.0	May	+ 18.7	Q1	+ 2.8	+ 2.9	102.5§	102.9	0.82	0.87	1.50	–	0.74	-3.1
Spain	− 58.7	Apr	− 28.3	Apr	− 2.9	− 3.1	77.1§	77.4	0.82	0.87	1.50	–	0.74	0.3
Sweden	+ 21.7	May	+ 21.2	Q1	+ 6.3	+ 6.0	80.9	80.4	7.51	8.05	13.8	9.18	6.83	0.2
Switzerland	+ 7.8	Jun	+ 37.5	Q4	+10.8	+10.6	112.9	112.3	1.26	1.35	2.31	1.54	1.14	-1.6
United States	−572.9	May	−537.3	Q1	− 5.2	− 5.0	96.8	104.1	–	–	1.84	1.22	0.91	-4.7
Euro area	+103.0	Apr	+ 52.8	Apr	+ 0.5	+ 0.5	90.3	90.9	0.82	0.87	1.50	–	0.74	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.0	May	+ 10.2	May	na	na	82.0§	82.2	0.82	0.87	1.50	–	0.74	1.6
Greece	− 27.2	Apr	− 10.4	Apr	na	na	59.5§	59.7	0.82	0.87	1.50	–	0.74	-3.2
Iceland	− 0.3	May	− 0.7	Q1	na	na	95.2**	98.2	71.2	77.1	131	87.0	64.7	0.2
Ireland	+ 42.7	Apr	− 2.1	Q1	na	na	94.2§	95.5	0.82	0.87	1.50	–	0.74	-0.5
Luxembourg	− 3.9	Apr	+ 3.2	Q1	na	na	103.0§	103.4	0.82	0.87	1.50	–	0.74	-1.8
New Zealand	− 2.1	May	− 3.4	Q1	na	na	101.7	98.4	1.53	1.73	2.81	1.87	1.39	2.9
Norway	+ 29.0	Jun	+ 28.9	Apr	na	na	94.7	97.3	6.86	7.25	12.6	8.39	6.24	10.4
Portugal	− 14.9	Apr	− 8.3	Apr	na	na	93.3**	92.9	0.82	0.87	1.50	–	0.74	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, April average.

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About sponsorship

Commercial-property prices

Jul 22nd 2004
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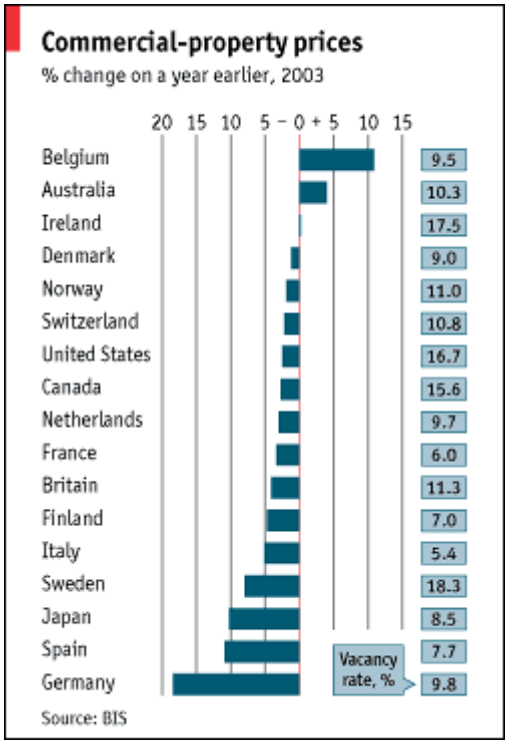

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Overview

Jul 22nd 2004
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Inflationary pressures are mounting and economic growth is slackening in **China**. Consumer prices rose by 5.0% in the year to June, up from 4.4% in May. GDP grew by 9.6% in the year to the second quarter, down from 9.8% in the first quarter.

India's trade deficit rose to $16.9 billion in the 12 months to June. In **Russia**, the trade surplus increased to $67.1 billion in the year to May.

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Human Development Index

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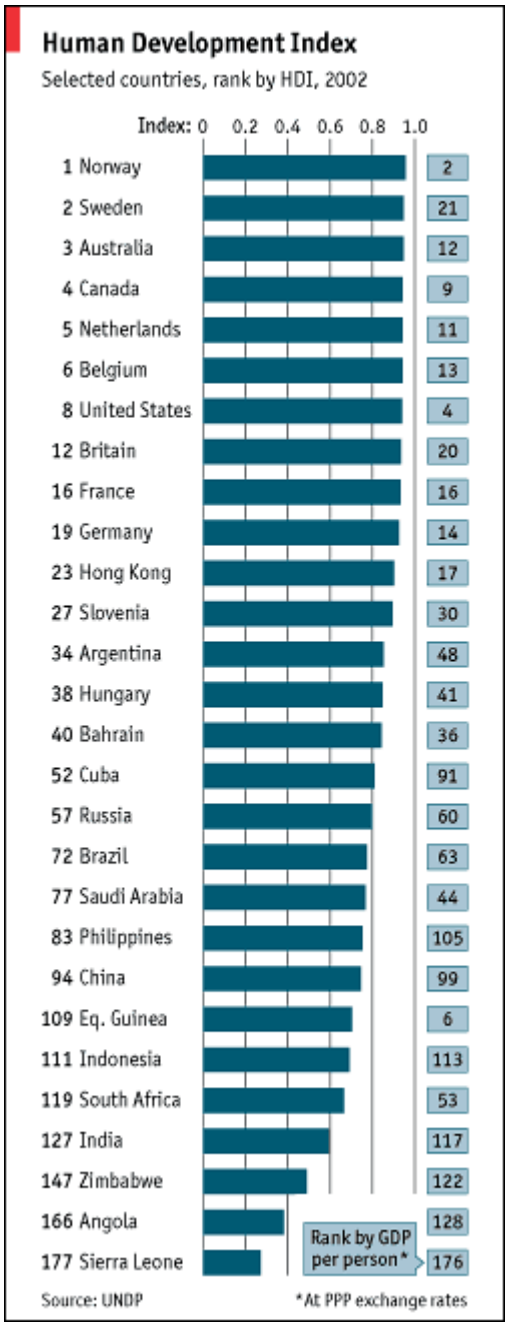
Norway is still the best place to live, according to the UN's annual Human Development Index. Sierra Leone is the country to avoid. The index takes into account life expectancy and education as well as GDP per person. So Equatorial Guinea, where life expectancy at birth is 49 years, is ranked 109th even though its oil riches mean that it apparently comes sixth in a conventional comparison of GDP per person.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+16.2	Jun	+ 5.0	Jun	+15.3	Jun	+45.9	2003	470.6	Jun
Hong Kong	+ 6.8	Q1	+ 1.8	Q1	– 0.9	May	–12.3	May	+14.3	Q1	120.8	Jun
India	+ 8.2	Q1	+ 6.2	May	+ 2.8	May	–16.9	Jun	+ 8.7	Q1	114.1	Jun
Indonesia	+ 4.5	Q1	+17.1	Apr	+ 6.8	Jun	+27.8	May	+ 7.4	Q4	35.3	May
Malaysia	+ 7.6	Q1	+12.8	May	+ 1.3	Jun	+20.1	May	+13.0	Q1	53.9	Jun
Philippines	+ 6.4	Q1	– 5.2	Apr	+ 5.1	Jun	– 1.3	May	+ 3.9	Mar	13.0	Jun
Singapore	+11.7	Q2	+21.0	May	+ 2.0	May	+15.1	May	+27.6	Q1	101.6	Jun
South Korea	+ 5.3	Q1	+13.5	May	+ 3.6	Jun	+27.5	Jun	+24.1	May	167.0	Jun
Taiwan	+ 6.3	Q1	+16.6	May	+ 1.8	Jun	+13.1	Jun	+27.4	Q1	230.1	Jun
Thailand	+ 6.5	Q1	+ 6.8	May	+ 3.0	Jun	+ 2.2	May	+ 7.4	May	41.8	May
Argentina	+10.7	Q1	+ 6.2	May	+ 4.9	Jun	+14.2	May	+ 6.1	Q1	17.4	Jun
Brazil	+ 2.7	Q1	+ 7.8	May	+ 6.6	Jun	+29.5	Jun	+ 6.5	May	50.5	May
Chile	+ 4.8	Q1	+ 4.5	May	+ 1.1	Jun	+ 6.2	Jun	– 0.1	Q1	15.9	Jun
Colombia	+ 3.8	Q1	+ 3.8	Apr	+ 6.1	Jun	+ 0.2	Apr	– 1.6	Q1	11.6	Jun
Mexico	+ 3.7	Q1	+ 2.1	May	+ 4.4	Jun	– 5.4	May	– 9.1	Q1	60.3	May
Peru	+ 4.2	May	+ 5.6	Apr	+ 4.3	Jun	+ 1.5	May	– 0.6	Q1	10.4	May
Venezuela	+29.8	Q1	+24.6	Apr	+22.3	Jun	+17.8	Q1	+12.3	Q1	18.9	May
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.7	Q1	+ 3.9	Q1	13.6	Feb
Israel	+ 2.6	Q1	+ 4.2	May	nil	Jun	– 5.6	Jun	+ 0.3	Q1	26.1	Jun
South Africa	+ 1.9	Q1	+ 3.0	May	+ 0.6	May	+ 1.1	May	– 2.0	Q1	9.8	Jun
Turkey	+10.1	Q1	+16.5	May	+ 8.9	Jun	–28.3	May	– 9.8	Apr	33.2	May
Czech Republic	+ 3.1	Q1	+12.7	May	+ 2.9	Jun	– 2.5	May	– 6.0	Q1	26.5	Jun
Hungary	+ 4.2	Q1	+ 7.1	May	+ 7.5	Jun	– 4.2	Apr	– 7.1	Apr	12.6	Jun
Poland	+ 6.9	Q1	+15.7	Jun	+ 4.4	Jun	– 6.0	Apr	– 2.8	May	35.3	May
Russia	+ 7.4	Q1	+ 5.5	May	+10.2	Jun	+67.1	May	+35.3	Q1	81.5	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.8	Q1	+ 5.4	Jun	+ 4.5	Jun	– 2.3	May	– 1.1	Q1	1.4	May
Latvia	+ 8.8	Q1	+ 3.4	May	+ 6.1	Jun	– 2.4	May	– 1.4	May	1.5	May
Lithuania	+ 7.7	Q1	na		+ 1.1	Jun	– 2.9	Apr	– 1.5	Q1	3.4	May
Slovakia	+ 5.5	Q1	+ 8.0	May	+ 8.1	Jun	– 0.5	May	nil	Mar	13.1	May
Slovenia	+ 3.7	Q1	+12.0	May	+ 3.9	Jun	– 0.9	May	– 0.2	May	8.2	Apr
Pakistan	+ 5.1	2003†	+13.4	Feb	+ 8.5	Jun	– 3.2	Jun	+ 2.4	Q1	11.1	May
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Apr	+61.2	2003	+29.7	2003	23.2	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jul 22nd 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 21st		Dec 31st 2003	
	Jul 21st	year ago	Jul 21st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.2	2.80	1,519.8	+3.1	– 3.1	– 3.1
Hong Kong	7.80	7.80	14.3	0.46	12,395.1	+3.9	– 1.4	– 1.9
India	46.1	46.1	84.6	4.49	4,993.8	+3.0	– 14.5	– 15.3
Indonesia	9,015	8,605	16,551	7.49	761.2	+2.3	+ 10.0	+ 2.8
Malaysia	3.80	3.80	6.98	2.87	840.9	–0.5	+ 5.9	+ 5.9
Philippines	55.9	54.0	102.7	7.75	1,539.3	–1.7	+ 6.7	+ 5.9
Singapore	1.72	1.75	3.15	0.94	1,873.2	+0.1	+ 6.2	+ 5.1
South Korea	1,159	1,181	2,128	3.90	753.3	+2.3	– 7.1	– 4.5
Taiwan	33.8	34.4	62.1	1.10	5,409.1	–3.8	– 8.2	– 7.8
Thailand	41.0	42.0	75.3	1.42	655.8	+0.5	– 15.1	– 17.9
Argentina	2.95	2.78	5.42	4.88	981.9	+1.0	– 8.4	– 9.1
Brazil	3.03	2.90	5.57	15.77	21,810.0	+0.6	– 1.9	– 6.7
Chile	628	706	1,153	1.80	7,777.6	+1.3	+ 6.0	nil
Colombia	2,633	2,885	4,833	7.76	3,023.5	+0.5	+ 29.6	+ 36.8
Mexico	11.5	10.5	21.1	6.71	9,987.1	+1.5	+ 13.6	+ 11.1
Peru	3.42	3.47	6.29	2.38	2,833.9	–1.7	+ 16.4	+ 17.7
Venezuela	2,666§	1,598	4,894	16.26	25,355.7	nil	+ 14.2	+ 22.2
Egypt	6.21	6.11	11.40	11.08	15,843.8	+3.6	+ 36.1	+ 35.2
Israel	4.49	4.38	8.25	1.00	591.1	+0.9	+ 10.6	+ 8.2
South Africa	6.11	7.50	11.2	8.20	10,131.3	+0.3	– 2.5	+ 6.6
Turkey	1,472,500	1,409,500	2,703,363	25.25	18,779.8	+0.8	+ 0.8	– 3.8
Czech Republic	25.7	28.0	47.2	2.49	780.7	–0.9	+ 18.4	+ 18.4
Hungary	204	231	375	11.41	11,641.2	+0.5	+ 24.1	+ 25.9
Poland	3.64	3.84	6.69	6.34	23,994.7	+2.7	+ 15.2	+ 18.4
Russia	29.1	30.3	53.4	13.00	575.7‡	–2.2	+ 1.0	+ 1.5
EMF (MSCI)*	1.00	1.00	1.84	na	428.1	+0.4	– 3.3	– 3.3
EMBI+†	1.00	1.00	1.84	na	293.3	+0.1	– 0.5	– 0.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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